FINANCIAL TIMES

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WORLD NEWS

National party of South Africa hit as senior MP defects

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Bid to unite Albanians fails
US efforts to unite the leaders of the Albanian majority in Serbia's Kosovo province into a single negotiating team appear to have failed. Page 2

Women win promotion but not pay
Women working full-time in the UK are more likely to win promotion than men, but often find themselves at the bottom of the salary scale, a survey shows. Page 6

Cook urges curbs on Brussels
British foreign secretary Robin Cook called for a range of measures to curb the power wielded by Brussels and to transfer responsibilities to European Union member states. Page 6

Sweeping tax reforms for Australia
Australian prime minister John Howard staked the future of his conservative coalition on plans for sweeping tax reforms which include a 10 per cent goods and services tax to replace a host of indirect taxes. Page 12

New party for Pakistan
Former Pakistani president Farooq Leghar is to launch a political party in a bid to find an alternative to the country's increasingly criticised two main parties. Page 5

India accepts patents treaty
India, which has long resisted recognising global intellectual property rights, is to accede to the Paris convention. Page 4

World Bank policies 'raise poverty'
World Bank policies are increasing poverty and unemployment, an investigation undertaken by the bank and some of its harshest critics says. Page 4

Greenpeace budget cut by 10%
Smaller grants and "donor fatigue" led to a 10 per cent cut in the operating budget of Greenpeace last year, the environmental campaign group said. Page 4

Call for cuts in home phone costs
US consumer groups want federal regulators to make sure residential customers receive the same savings as large businesses from government-ordered reductions in telephone fees. Page 3

Internet company accused
US Federal regulators accused Internet company GeoCities of misleading customers about maintaining their privacy. Page 3

Seaside piers at risk
At least 10 of the 50 remaining seaside piers in the UK are in imminent danger of closure or destruction, conservationists say. Page 6

BUSINESS NEWS

Daimler to build M-Class vehicle at factory in Austria

Daimler-Benz unveiled one of the first benefits of its takeover of Chrysler with plans to build its new M-Class sports utility vehicle at a Chrysler-linked company in Austria. Page 13

Veba, Germany's fourth largest company, saw its earnings track record thrown sharply into reverse as its push into telecoms fell well short of expectations and Asia's economic crisis hit silicon wafer activities. Page 13; Lex, Page 12

Renault, the French carmaker, is to concentrate production of three models – the Laguna, the Safrane and the Espace – at a single northern French site as part of a drive to cut costs. Page 14; Observer, Page 11

Mannesmann, the German industrial conglomerate, lifted first-half pre-tax profits 75 per cent to DM1.14bn ($620m) with a strong revival in its engineering businesses. Page 14

Platinum Technology, the US information technology company, has agreed to pay $520m for Memco Software, a small Israeli network security company which last reported revenues of just $30m. Page 14

Losses at Central European Media Enterprises, the leading commercial TV operator in east Europe, widened to $28.6m in the second quarter from $6.8m last time after a heavy write-off on its Hungarian operations. Page 14

Cendant, the US direct marketing and franchising group, is to seek a change in the terms of its $3.1bn acquisition of American Bankers Insurance following a share price collapse. Page 13

News Corp shares rose 18 cents or 1.6 per cent to A$11.35 on the Australian stock market following the group's announcement of record net profit of US$1.22bn in the year to June. Page 13

Hongkong Electric, the monopoly electricity supplier on Hong Kong Island, reported an 8.5 per cent decline in interim net profits. Page 15; Money markets sniff blood, Page 5

Dragados, the Spanish construction group, is exploring the possibility of an international partnership after the collapse of a domestic merger. Page 14

Boeing plans to open a 737 assembly line in Long Beach, California, and consolidate fighter aircraft production in St Louis to improve efficiency. Page 13

More than 1,000 waterlogged oil wells have been shut down in China's Daqing field, which produces a third of the country's petroleum. Page 15

Flextech, the UK pay-TV company, entered the black for the first time after improved audience ratings on its main television channels. Page 17

Asher Edelman, the New York investor, wants to take control of French hotels, luxury goods and light industry group Société du Louvre. Page 14

Lex on Veba
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Fears over devaluation send Russian markets plunging

By John Thornhill in Moscow

Russian markets plunged yesterday as investors feared the government might soon be forced into a devaluation or a domestic debt restructuring, while the central bank moved to shore up the stability of the banking sector.

Trading was suspended on the Russian stock market early yesterday morning as shares fell by 15 per cent. But equity prices later recovered some ground and the RTS-IF index of leading stocks closed 6.5 per cent lower.

Yields on short-term treasury bills also soared to more than 210 per cent at one point. They closed at 170 per cent, their highest level since before the 1996 presidential elections, when investors were afraid the Communist party would return to power. Russian dollar-denominated debt was also trading at levels which implied default.

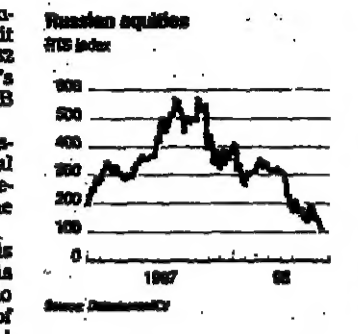
Moody's and Standard & Poor's, the US credit rating agencies, added to the gloom by downgrading Russia's sovereign credit rating: Moody's cut was from B2 to B1 and Standard & Poor's downgraded from B plus to B minus.

Sergei Kiriyenko, prime minister, said there were no financial grounds for the markets' movement and said it belonged in the "realm of psychology".

Speaking by telephone from his holiday home, President Boris Yeltsin instructed Mr Kiriyenko to "steadfastly fulfil the plan of action" the government had agreed with the International Monetary Fund, which has called for aggressive tax-raising measures and sharp spending cuts.

Nicholas Stern, chief economist at the European Bank for Reconstruction and Development, said yesterday's dramatic price movements were on the back of thin volumes and exaggerated the depth of the financial crisis.

"But it is now very important that Russia delivers on its commitments made to the IMF, although it will need time to put these measures into place," he said. The central bank, which has been concerned about the liquidity squeeze in the banking market following the asset price falls, expanded access to overnight credits to a broader range of banks. However, it prohibited banks from buying dollars on their own account to prevent them speculating against the rouble – although bankers questioned how effectively this ban could be enforced.



The central bank announced its hard currency reserves had fallen by $1.4bn to $17bn in the first week of August as it continued to defend the rouble.

Alexander Livshits, the president's chief economic adviser, hit back at a proposal aired in the Financial Times yesterday by George Soros, the US-based speculator, to introduce a currency board after a modest devaluation of the rouble. Mr Livshits said a devaluation would "not solve one serious economic problem".

Such a step would not help the government "collect taxes, nor help balance the budget, nor help it conduct essential reforms, nor help it finance the wages of federal employees", he said.

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US cigar profits dampened by flood of imports

By Richard Tomkins in New York

The beginning of the end of the cigar fad, or maybe just a glut. Whatever the reason, US cigar companies' profits are going up in smoke.

Yesterday General Cigar, maker of Macanudos, the top-selling premium brand, warned it expected to report earnings per share of just 15-20 cents in the third quarter, much less than the 39 cents reported a year earlier or the 27 cents expected by analysts.

The warning came just a few days after Consolidated Cigar, the biggest US cigar company, reported a fall in net profits from $13m to $10m in the second quarter, and said the trend would continue for the rest of the year.

Both companies have fallen victim to a sudden about-turn in the industry's fortunes following the craze for smoking big, fat, expensive cigars which started in 1994.

For the best part of three years, US cigar companies found themselves unable to keep up with demand and prices went up. But last year overseas manufacturers started flooding the US market with previously unknown brands.

These cigars, contemptuously described as Don Nobodies by connoisseurs, were lower in quality than established brands. But they were also cheaper and found a ready market among inexperienced smokers.

Norman Sharp, president of the Cigar Association of America, an industry body, said the influx of cigars had produced a surplus of about 100m premium cigars at various stages of the supply chain. These were now being sold at low prices, hurting established companies and newcomers alike.

Mr Sharp said the influx of Don Nobodies had now eased and US cigar companies hope profits will bounce back once the glut has worked itself out. But a worry is that a further fall in stock prices, bringing a decline in the feel-good effect, will dampen demand.

"The faddish part of it, I think, has worn off," Mr Sharp cautioned. "But I think there are still a lot of people out there who are interested in the product, people who consider a fine cigar a fine experience and enjoy relaxing with it."

BOJ chief sounds bank failure alert

Warning of serious risk to financial system

By Gillian Tett in Tokyo

Masaru Hayami, governor of the Bank of Japan, yesterday warned that the "sudden failure" of one of Japan's top 19 banks could pose a serious risk to the financial system.

"Monetary authorities should be cautious and make it their duty to minimise the ripples," he argued, adding that a failure could have an "unexpected impact" on the international derivatives market.

The comment comes as the government ponders the future of the Long Term Credit Bank of Japan, which is currently holding merger talks with Sumitomo Trust Bank. LTCB has significant off-balance sheet international derivatives exposure.

The Ministry of Finance has insisted that LTCB is solvent, according to its last accounts on March 31. The Bank of Japan conducted an inspection of the bank earlier this year, which also found that LTCB was solvent.

However, the Financial Supervisory Agency, Japan's banking regulator, is conducting another audit of LTCB prior to its planned merger.

Some Japanese politicians want the FSA to take a tough stance on LTCB, to prove to the financial markets that Japan is tackling its banking problems.

LTCB will reveal in the coming days that the gross, notional value of its derivatives exposure was Y51,500bn ($352.7bn) on March 31, on a consolidated basis calculated according to the system used by the Bank for International Settlements. This exposure cuts across a range of international markets, LTCB officials say.

This level of exposure is smaller than at some other large Japanese banks. Moreover, the market value of this derivatives portfolio would be much smaller than the gross notional principal – the most recent survey from the Bank for International Settlements, dating to 1995, showed a value of $2,200bn for the entire market, compared with a gross notional amount of $47,500bn.

However, unwinding a large portfolio smoothly in the financial markets could thus potentially be difficult, especially as many of LTCB's trading counterparties may themselves be financially weak. Banks with exposures to LTCB would be likely to have netting agreements in place, allowing them in the event of a collapse to offset the amounts they owe to LTCB against the amounts they are owed by it.

Lex, Page 12

Australian Prime Minister John Howard announces a radical new tax package yesterday to head off the growing threat to his governing coalition from the populist One Nation party. Report, Page 12 Reuters

Holocaust payouts lift sanctions threat

By John Authers in New York and William Hall in Zurich

The controllers of New York's city and state pension funds yesterday lifted their threat of sanctions against Swiss banks and other Swiss companies, in reaction to Wednesday's announcement by UBS and Credit Suisse that they were prepared to pay $1.25bn to Holocaust survivors.

The suspension of the sanctions threat was the clearest sign that the deal, arranged after two days of negotiations with a Brooklyn judge, would release Swiss banks from the international campaign over their wartime actions. The US and the Israeli governments yesterday reacted positively to the agreement, while the Swiss government issued a cautious welcome.

Alan Hevesi, New York city comptroller, had been prepared to start imposing sanctions, which would have included total divestment of shares in all Swiss companies next month.

However, the pressure on European insurers and on German banks, which face legal action over holocaust victims' unclaimed insurance policies, intensified yesterday, with US lawyers saying they were now armed with a precedent.

Rainer Gut, the chairman of Credit Suisse, said the two banks had been keen to include the Swiss insurance companies in the settlement but it was not possible because they were part of a separate class action which includes other European insurers.

Several Swiss politicians said UBS and Credit Suisse had bowed to blackmail and extortion by agreeing to the $1.25bn settlement, but Mr Gut said he had expected an "even bigger counter-blast".

The Swiss National Bank also welcomed the deal but would not be drawn on whether it would make a contribution to the $1.25bn settlement. Novartis, the biggest Swiss drugs company, and Sulzer, one of the country's most famous engineering companies, said they would contribute.

Elan Steinberg, secretary-general of the World Jewish Congress, described the deal as "a triumph for the cause of justice, and for the writing of history".

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WORLD MARKETS

STOCK MARKET INDICES		
New York: Lunchtime		
Dow Jones Ind Av	8512.26	(-40.68)
NASDAQ Composite	1807.88	(-17.65)
Europe and Far East		
CAC40	3951.69	(+5.09)
DAX	5358.23	(-48.14)
FTSE 100	5399.5	(-82.7)
Nikkei	15,382.02	(+3.05)
US Lunchtime RATES		
Federal Funds	5.58%	
3-mth Treas Bills: Yld	5.060%	
Long Bond	106¾	
Yield	5.64%	
OTHER RATES		
UK: 3-mo Interbank	7⅝%	(same)
UK: 10 yr Gilt	111.5781	(111.570)
France: 10 yr OAT	104.90	(104.89)
Germany: 10 yr Bund	105.46	(105.45)
Japan: 10 yr JGB	111.83	(111.82)
NORTH SEA OIL (Argus)		
Brent Dated	$11.63	(11.295)

GOLD		
New York Comex		
	$285.3	(282.8)
London		
	$284.85	(283.55)
EXCHANGE RATES		
Dollar		
New York: Lunchtime		
£	1.6280	
DM	1.78575	
FFr	5.988	
SFr	1.4867	
Y	145.17	
London		
£	1.6258	(1.6205)
DM	1.7844	(1.7747)
FFr	5.981	(5.9488)
SFr	1.4877	(1.4827)
Y	145.175	(146.005)
Tokyo Close		Y 146.55
Sterling		
DM	2.901	(2.8815)

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SWISS BANKS' SETTLEMENT: EUROPEAN INSURERS NOW TO FEEL THE HEAT □ ISRAEL WANTS CLEAR RULES ABOUT THE MONEY

$1.25bn Holocaust accord ends a tangled process

By John Authers in New York

The Swiss banks' historic agreement to pay $1.25bn to holocaust victims, announced on the steps of a Brooklyn court house late on Wednesday evening after two days of tense negotiations before a judge, brought a simple conclusion to what had become an increasingly tangled process.

Under the agreement, the $1.25bn will be paid out in four instalments over a period of three years, with the first instalment, of $250m, due in three months. This sum covers not only Credit Suisse and UBS, the two biggest Swiss banks, but also the Swiss National Bank, which had been sued separately for its involvement in handling stolen Nazi gold, and which refused to take part in the talks.

All claims against smaller Swiss banks will also be dropped under the settlement, as will claims against Swiss industrial companies which may have been involved in employing slave labour. However, Swiss insurers are specifically excluded from the settlement, and a class action against them in the US is still outstanding.

The negotiators for the holocaust survivors also agreed to recommend that threats of sanctions against the banks by US state and municipal authorities be lifted. The deal renders many of the moves which had previously been made to arrange for restitution effectively irrelevant.

The first campaign to force the banks to pay compensation was organised by the World Jewish Congress, a community organisation with close links to the government of Israel and headed by Edgar Bronfman, chief executive of Seagram.

In early 1996, the WJC agreed with the Swiss banks to set up an "Independent Committee of Eminent Persons" to conduct a forensic audit of all dormant accounts held by the banks. Chaired by Paul Volcker, the former chairman of the US Federal Reserve, it included four representatives each from the Jewish community, and from Swiss banks.

The banks also agreed to pay $70m into a special humanitarian fund so that aid would be available instantly, while Mr Volcker conducted his investigation.

In October 1996, the first class action lawsuit against the banks was filed in Brooklyn. Eventually more than 40 separate lawyers became involved in the process.

The lawsuit initially covered money left in dormant accounts, but subsequently broadened to include stolen assets handled by the banks during the war – notably the gold looted by the Nazis from occupied countries.

During 1997, the banks worked on arranging compensation through the Volcker process, but they came under pressure in the US to negotiate a one-off "global settlement".

In December last year, Stuart Eizenstat, the US undersecretary of state, arranged for three lawyers leading the class action to meet with the banks in Zurich.

In March, under pressure from US local politicians, the banks agreed to a timetable, saying they would negotiate a "global settlement" by the end of June.

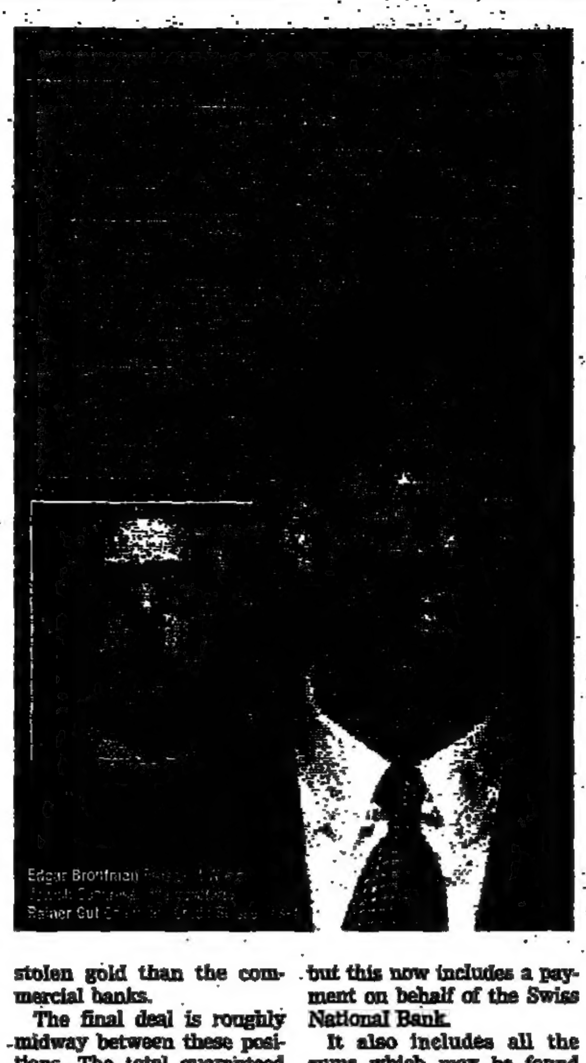
The talks ended acrimoniously, with the Swiss making a public offer of $530m, in addition to the $70m paid into the humanitarian fund, plus whatever amount Mr Volcker found to be payable (which estimates put anywhere between $100m and $600m).

Negotiators on the Jewish side said this was "insulting". Local politicians, led by Alan Hevesi, city comptroller of New York, announced that they would start imposing sanctions – possibly including divestment by public pension funds of all shares in Swiss companies – from the beginning of September.

At this point, negotiators on behalf of the victims made a counter-offer of $1.5bn, which would include all Volcker money, and would also involve payment by the Swiss National Bank, which handled much more stolen gold than the commercial banks.

The final deal is roughly midway between these positions. The total guaranteed rises from $520m to $1.25bn, but this now includes a payment on behalf of the Swiss National Bank.

It also includes all the sums which may be found by Mr Volcker.



Edgar Bronfman ... Rainer Gut ...

Deutsche and Dresdner to face pressure

By Frederick Studemann in Berlin

Germany's two biggest banks said yesterday they believed the Swiss bank settlement would not have any bearing on a class action lawsuit brought against them over allegations they received assets looted by the Nazis.

Spokesmen for Deutsche Bank and Dresdner Bank said the allegations against the Swiss banks and the German ones were substantially different.

They added that while the case against the Swiss banks centred on unclaimed accounts, the lawsuit against German banks centred on allegations they had profited from gold taken from Nazi victims.

Both banks refused to comment further on Wednesday's settlement for fear of prejudicing the lawsuit issued against them in June by Ed Fagan, the New York lawyer who led the class action against the Swiss banks.

Hearings on whether the lawsuit against the German banks will be accepted in court are due in October.

Mr Fagan's German associate, Michael Witti, a Munich-based lawyer, yesterday criticised the two German banks' reaction. He said he had hoped they would indicate they were prepared to settle as well.

He said that with the case against the Swiss banks resolved, resources would now be redeployed to tackle the German banks.

He was dismissive of the banks' claim of substantial differences with the Swiss case, alleging that Deutsche Bank and Dresdner Bank profited from dormant accounts held by victims of the Nazis.

He also claimed the two banks benefited from transactions undertaken in the course of the "Arianisation" of Jewish businesses, when companies and assets held by clients were expropriated and the financial proceeds transferred to the German central bank.

A team of historians commissioned by Deutsche Bank recently confirmed the bank had profited from gold taken by Holocaust victims but was unable to determine whether bank executives knew of the origin of the gold.

Earlier this year Deutsche Bank donated DM5.6m ($3.1m) to Jewish foundations as the proceeds from the 1995 sale of gold it possessed at the end of the second world war, which may have been stolen from victims of the Nazis.

ISRAELI REACTION GOVERNMENT OFFICIAL RECOMMENDS THAT THE STATE COMPTROLLER SUPERVISE DIVISION OF FUNDS TO CLAIMANTS

Attempt to avoid dispute over distribution

By Judy Dempsey in Jerusalem

The Israeli government yesterday said it would recommend that the State Comptroller supervise the distribution of any funds claimed by Holocaust survivors in order to have "full transparency" and avoid "squabbling" among Jewish organisations.

"This is holy money," said Bobby Brown, adviser for diaspora affairs, to Benjamin Netanyahu, prime minister.

He added that the government wished to establish three criteria setting out who should receive part of the $1.25bn compensation agreed between three Swiss banks, lawyers representing Holocaust victims and the World Jewish Congress.

Mr Brown said any Holocaust victims or heirs who could prove they had claims should be given priority, followed by needy survivors. Any remaining sum should be allocated to educational activities and studies on the Holocaust. Some 350,000, or over half of all Holocaust survivors live in Israel.

The government's wish to take the initiative is aimed at avoiding infighting and disagreement among Holocaust organisations over the earlier distribution of $59m. That sum was given to Israel as part of the special humanitarian fund for needy Holocaust survivors set up by the Swiss banks last year.

Organisations including the World Jewish Congress, Amcha, which cares for Holocaust survivors in Israel, and the finance ministry could not agree on the term "needy", how survivors could be located, who should receive money and how the money should be distributed.

"The sad fact of Jewish life is that there is a lot of competing interests," said Jonathan Lemberger, Amcha's executive director. "Not a penny of that $59m was distributed. The money should be distributed to organisations directly involved with the survivors." Mr Brown said around $30m was being distributed.

In an effort to prevent disagreement, Mr Brown said the government wanted the World Jewish Congress and all the Holocaust organisations in Israel to participate in setting out clear criteria. However, he insisted the State Comptroller should have the right to open any file. "We do not want a situation where there will be any discrimination," he said.

He added that he would like private individuals, survivors and the finance ministry to be involved as well on setting criteria. "The key thing is to have accountability and 100 per cent transparency," said Mr Brown.

EUROPEAN NEWS DIGEST

LONG-TERM UNEMPLOYMENT

Bonn governing parties in wage supplement plan

Germany's governing Christian Democratic Union and Christian Social Union (CDU/CSU) yesterday unveiled plans to supplement low wages with state benefits in a "combi-wage" system. The step is part of an effort to bring the country's 1.35m long-term unemployed back to work.

Norbert Blüm, the labour minister, suggested combi-wages could create as many as 100,000-150,000 jobs, particularly in areas where wages were lower than social security and unemployment benefits.

Mr Blüm cited catering, domestic services, farming and retail as likely fields for putting combi-wages into practice.

If Chancellor Helmut Kohl's coalition won the elections on September 27 – according to recent polls still an uncertain prospect – combi-wages would be introduced as soon as possible, Mr Blüm said. **Tobias Buck, Bonn**

KOSOVO CONFLICT

Albanians unable to unite

US efforts to unite the leaders of the Albanian majority in Serbia's Kosovo province into a single negotiating team appeared to have ended in failure yesterday. A new five-member team announced by Ibrahim Rugova, leader of the main Democratic League of Kosovo, did not include any political opponents or the rebel Kosovo Liberation Army (KLA).

The shadowy KLA issued a statement saying that only Adem Demaci, who spent 27 years as a political prisoner in Serbia and is a fierce rival of Mr Rugova, could play a leading role in setting up new institutions in Kosovo. It was the first time that the KLA, believed to be controlled by nationalist exiles in Europe, had publicly named what amounts to its political wing.

Analysts said the deepening divisions among the ethnic Albanian groups would further complicate the search for a political solution. **Guy Dinmore, Belgrade**

SPANISH ECONOMY

Inflation above target level

Rising prices in Spain's crowded tourist resorts have pushed inflation up above the government's target level, with a rate of 2.2 per cent in the 12 months to July, the highest since March last year.

The centre-right government said the figures from the National Statistics Institute, which showed consumer prices up 0.4 per cent during the month, were "somewhat higher than expected" but there was no cause for alarm, and it could still achieve its 2.1 per cent target for the year as a whole.

Cristóbal Montoro, state secretary for the economy, hoped talks with tourist industry representatives would curb the price trend in the sector, which has taken advantage of strong demand to raise charges. A 1.6 per cent upsurge in tourism prices was one of the main factors in last month's overall rise, along with higher food costs.

Underlying inflation, omitting fresh food and energy prices, moved up to a 12-month rate of 2.5 per cent, against 2.4 per cent a month earlier. **David White, Madrid**

SWEDISH POLITICS

Emu claims rejected

The dispute between Sweden's ruling Social Democrats and the opposition Moderate party over European economic and monetary union (Emu) intensified yesterday when Erik Asbrink, the finance minister, rejected opposition claims that the government was hampering business preparations for the single currency.

Sweden will not be adopting the euro next year but Mr Asbrink said the government was actively informing companies on how to use it for invoicing and payments. Carl Bildt, Moderate party leader, claimed this week delays caused by Social Democrat splits over the single currency meant new regulations for switching accounting were delayed. **Tim Burt, Stockholm**

INSURANCE INDUSTRY LAWYER PREDICTS FURTHER SETTLEMENTS WILL FOLLOW 'LIKE DOMINOES'

Spotlight turns to Europe's insurers

By William Hall in Zurich and John Authers in New York

As the legal spotlight turns from the Swiss banks, it will be concentrated much more closely on the murky wartime record of Europe's insurers.

Ed Fagan, the lawyer who led the lawsuit against the banks, predicted yesterday that insurers would settle "like dominoes".

In many respects they are now facing a re-run of the critical campaign mounted against the Swiss banks.

US insurance regulators, armed with the threat that they can revoke insurers' state licences, are collecting data about the activities of insurers which refused to pay out on insurance policies sold before the war to Jews persecuted by the Nazis. Alfonse D'Amato, chairman of the US Senate banking committee, has held hearings on European insurers, while there is also a class action lawsuit against 17 European insurers, designed to bring them to the bargaining table.

Axa of France, Generali of Italy and Allianz of Germany have all been sued, as have several large Swiss insurers, including Zurich Insurance.

All have large operations in the US, which they want to extend. Zurich now has one of the largest US fund management operations after a series of acquisitions, and Axa controls both The Equitable, the largest publicly quoted life insurer, and Donaldson Lufkin & Jenrette, the merchant bank. This could give US local politicians strong leverage, as UBS and Swiss Bank Corporation found out when New York bank regulators initially refused to approve their merger.

The US State Department is keen to ensure that a settlement can be agreed without the acrimony that attended the banks' negotiations, and without lengthy legal action.

The National Association of Insurance Commissioners (NAIC), which represents US state regulators, and regulators from France, Switzerland and Austria have already held meetings in London and New York in a bid to bring further official pressure on European insurers. The NAIC has also been in contact with the World Jewish Congress over a process for paying compensation.

The Swiss insurers appear to have learnt the lessons from the bungled attempts of the Swiss banks to defuse their public relations nightmare. Zurich Insurance and the Basle-based Baloise have joined Allianz, Generali and AXA in signing a memorandum of intent to help expedite claims.

In April Zurich set up its own independent commission of eminent persons, analogous to the Volcker commission, which included a former senior partner of Goldman Sachs, a New York rabbi, and the president of the National Bank of Hungary to oversee its efforts to resolve disputed life insurance claims. Last week, Zurich launched a newspaper advertising campaign in the US to locate Holocaust survivors who may be the beneficiaries of Zurich's life insurance policies. The action followed uncomfortable revelations from a group of historians appointed by the Swiss government, which issued an interim report in May showing that the Swiss insurers were even more heavily involved in Germany during the war than were the Swiss banks.

By the end of the war 16 Swiss insurers were operating in Germany, which accounted for more than a quarter of their total premium income. Swiss Re, which has close links with Credit Suisse, earned more than a quarter of its profits from Germany during the war. The Swiss banks stopped buying German gold in October 1941. But the Swiss insurers continued to operate normally. Even in the closing days of the war they were desperately trying to get paid in Nazi gold, even though they were aware that much of it had been looted, the report said.

Rolf Hüppi, Zurich's chairman and chief executive, says that his company had a very small involvement in the life insurance business in Europe before and during second world war.

US in drive to check looted art

The US government's next step in its drive to restore assets looted by the Nazis to Holocaust survivors or their families will be to host an international conference in late November in Washington on art, writes **David Buchan in London.**

This will encompass paintings, jewellery, rare books and manuscripts, as well as non-bank assets like insurance policies, bonds and shares.

Stuart Eizenstat, US undersecretary of state, said yesterday the conference would look at guidelines already developed by US museum directors to check on the provenance of art works. At a preparatory meeting on June 30 in Washington, 38 governments joined the US in launching a campaign to identify looted art and to compensate owners or heirs.

The issue of stolen artworks was brought to the fore last January when two paintings by Austrian artist Egon Schiele, on loan to the New York Museum of Modern Art, were impounded in Manhattan after local descendants of Jewish Holocaust victims claimed the works were stolen from their ancestors during the second world war.

France is believed to have up to 2,000 paintings of doubtful provenance in its museums and is to set up a new commission of inquiry.

Russia provides a bigger headache. The country's troops took copious amounts of art from Germany at the end of the war. But despite government promises of co-operation, parliament holds that all art taken from Germany is legitimate booty.

SWISS BANKS REACTION

Hoping for an end to the affair

By William Hall

It was Switzerland's two biggest banks, rather than its government, which were doing the talking yesterday. That was not surprising since the two are footing the bill to head off claims against the Swiss government, the Swiss National Bank and all Swiss companies, except insurers.

"We have always said that we were negotiating on our own behalf, but we must clearly note that no solution can be reached without bringing in the various parties that have been involved," Bernhard Stettler, UBS's chief spokesman, told Swiss radio. He expected that others would now "show their appreciation" by making a contribution.

Ulrich Pfister, head of public affairs at Credit Suisse, said that the banks had agreed to increase their final offer "to finally finish the affair". He told Swiss radio that if the legal actions had been allowed to drag on it "would have cost us more in the long run than the doubling of the settlement".

The Neue Zuercher Zeitung, Switzerland's most respected daily newspaper, reported that the banks were looking for the Swiss National Bank to chip in $200m and industry to come up with $150m.

Novartis, Switzerland's biggest pharmaceutical company, and Sulzer, one of its most famous engineering companies, both indicated that they would make a contribution to help the banks finance the settlement. However, the Swiss central bank, which has been heavily criticised for its war-time dealings in Nazi gold, refused to be drawn on whether it would make a contribution.

The Swiss government spent most of yesterday making up its mind how to respond to the settlement and finally issued a brief statement cautiously welcoming the deal. However, an editorial in the NZZ complained the Swiss banks were "bowing to blackmail".

STATE DEPARTMENT HOPES OF VOLUNTARY PROTOCOL FOR COMPENSATION

US hopes for end to animosity

By Richard Wolffe in Washington

The US State Department yesterday welcomed the Swiss banks' settlement but said the controversy over the issue should be a warning to avoid hostility in negotiations over other Holocaust assets.

Stuart Eizenstat, the US undersecretary of state who spearheaded the international investigation, said the animosity surrounding the Swiss bank affair should be avoided in discussions over insurance and looted works of art.

Washington hopes to agree a voluntary protocol for compensation to victims of the Nazis for lost assets at the planned international conference on Holocaust-related art and insurance at the end of November.

The US government also hopes that other countries that were neutral during the second world war will make further contributions to an international fund for Nazi victims, which already totals around $60m.

The State Department said in March that five of the neutral countries – Spain, Portugal, Sweden, Turkey and Argentina – had traded in vital war supplies with Nazi Germany, and should now consider making moral gestures of reconciliation.

"I would hope that for other assets like insurance that we could have a less contentious and prolonged process for resolution," Mr Eizenstat said. "There is a class action lawsuit that is pending but I hope that we can avoid the threats. One of the things I believe is that everyone, having gone through this traumatic experience, wants to try to resolve these issues in ways that are less contentious but equally just."

State Department officials had become increasingly exasperated since the collapse of negotiations between the Swiss banks and lawyers for Holocaust victims in June. Behind the scenes, officials had been attempting to convince the Swiss government to reconsider its position. US officials have drawn heavily on the report by the Swiss Bergier commission of historians, which found the Swiss National Bank handled far more looted Nazi gold than previously thought.

The State Department insists it was right to oppose the threat of sanctions against Swiss banks and companies, arguing they were "inappropriate" in such sensitive negotiations.

However, Mr Eizenstat conceded the threat of sanctions had proved useful in other contexts, such as winning the support of the European Union and Russia over export controls against Iran.

"Sometimes having sanctions in the background can produce results, but it is a little bit like the atomic bomb," he said. "Once you drop it, there is an awful lot of collateral damage."

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GM LABOUR DISPUTE DRAGS DOWN FIGURES

Retail sales decline by 0.4% in July

By Nancy Dunne in Washington

US retail sales fell by 0.4 per cent in July from a month earlier, due mostly to the General Motors strike that dragged down new car sales by 3 per cent in the month.

The report on retail sales, issued yesterday by the Commerce Department, showed less of a fall in the vehicle sector than expected and could be followed by a rebound in the next two months, according to analysts. HSBC Securities, the international banking and financial services organisation, said the drop was much less dramatic than the 20 per cent or more drop reported by car manufacturers.

"The retail sales report is compiled from sales returns from auto dealers, not manufacturers, and their numbers tend to be much less volatile from month to month," HSBC said. "Even so, the gap this month is particularly huge and there must be a good chance of a downward revision."

Outside the vehicles sector, there was a slight rebound from the previous month's fall in sales. The annualised rise in sales in the past three months – 5.2 per cent – is slower than the 8 per cent increase in the previous three-month period ending in April.

The housing market continues to play a big role in the strength of the economy, with homes sales at record levels. Furniture sales rose by 1.2 per cent in July and have climbed back by 3 per cent from an April dip. The building materials sector also rose by 1.1 per cent.

"Consumer fundamentals remain generally favourable," said Morgan Stanley Dean Witter in its economic data bulletin. "Labour markets are right, sentiment is high, income growth is strong, interest rates are low and the drop in equity prices is not yet sizeable enough to significantly dampen the wealth effect. Underlying spending trends in non-auto goods categories and services remain quite positive, suggesting that any third-quarter pause in personal consumption should prove to be temporary."

US import prices fell by 0.9 per cent in July, the Labour Department said yesterday. The fall – the ninth in a row – was attributed to declines for both petroleum and non-petroleum imports. Over the past year, prices of all imports fell 3.9 per cent, while non-petroleum import prices sank by 6.2 per cent.

● First-time applications for state unemployment benefits fell by 7,000 last week, the Labour Department reported yesterday, indicating the US job market is still strong, Reuter adds. Initial claims for the week dropped to 301,000 from 308,000 the previous week.

Sleepy Mexican town gets a shot in the arm on back of Uncle Sam's drugs boom

With the silver mines long since gone, cannabis and opium poppy cultivation are now the main source of wealth in Batopilas, Sierra Madre. **Leslie Crawford** reports

The 18th century mining settlement of Batopilas, deep in the heart of the Sierra Madre, exhausted its rich silver seams 80 years ago.

But this unfriendly, forgotten town is booming. Brand new pick-up trucks line its cobbled streets, old adobe dwellings are being torn down to make way for modern homes, while dollars change hands as frequently as pesos.

The source of Batopilas's new wealth is drugs. Nestling in small glades, concealed in the forbidding ravines of the Copper Canyon, in what is perhaps the most inaccessible and rugged terrain of all Mexico, are thousands of hectares of cannabis and opium poppies. In September, when the marijuana harvest is in, drug traffickers will descend into the canyon and pay for the crop with maize, cash and cocaine.

In the sheltered valleys of the sierra, where temperate and tropical zones intermingle, the poppies are "milked" three times a year. One hectare of poppies will yield 10kg of opium gum, which in turn produces about 1kg of the crude "black tar" Mexican heroin now flooding the US.

According to the US Drug Enforcement Agency, one kilo of Mexican heroin will fetch between $45,000 and $175,000 in the US, compared with up to $260,000 for a kilogramme of purer heroin from south-west Asia. DEA documents suggest Mexico and Colombia have begun to displace Asia in the opium trade. Last year more than 60 per cent of heroin seized in the US came from Latin America.

The attorney-general's office in Mexico City, which oversees drug eradication, estimates at least 4,300 hectares of opium poppy and cannabis were being grown last year in the canyons to the south of Batopilas, in the state of Chihuahua, while US estimates place the cultivation of opium poppies in the Sierra Madre at 12,000 hectares.

The figures, officials admit, are only wild guesses. Aerial reconnaissance is hazardous in the narrow canyons of the sierra, while vast tracts of the mountain range have become no-go areas for the army and police.

One kilo of Mexican heroin will fetch up to $175,000 in the United States

Ironically it was the US government which introduced the opium poppy to Mexico during the second world war, when the Axis powers threatened to overrun Turkey and cut off the US's main source of morphine, an opiate used to treat surgery patients and the terminally ill.

Over the past decade, however, the cultivation of opium poppies has been taken over by Mexican drug cartels, often in association with logging companies which are stripping the Sierra Madre of its oak and pine forests.

The two businesses form a perfect match: The forest, once cleared of timber, is planted with cannabis and poppies; new logging roads make it easier to remove the harvested crops; the timber trucks provide a camouflaged mode of transport and the logging crews serve as a standing army to protect drug crops. Moreover some logging companies, according to the attorney-general's office, provide a legitimate outlet for laundering drug money.

In the beginning, persuading the indigenous Tarahumaras to grow drugs was a matter of simple arithmetic. By setting aside less than one quarter of an acre of land for cannabis and poppies, Tarahumaras were offered more than $1,000 – enough to pay for a whole year of supplies for a family.

But as the drug and timber trades grew increasingly profitable, logging companies and *caciques*, or local political bosses, became greedier.

They filed claims on the Tarahumara's ancestral communal lands, and launched a new reign of terror in the sierra.

In the municipality of Guadalupe Calvo, south of Batopilas, where loggers are stripping the last pockets of ancient forest, drug-related murders and "disappearances" are running at two a week, according to the Sierra Madre Alliance, a coalition of environmental and human rights groups.

The coalition has filed legal suits in Chihuahua and Mexico City in an attempt to halt illegal logging and restore land rights to Guadalupe Calvo's Tarahumara communities.

But Randall Gingrich, executive director of the Sierra Madre Alliance, says the lawsuits will amount to little more than a symbolic protest.

The coalition does not have funds to fight prolonged legal battles, and it cannot match the power and influence of the logging and drug interests in the region.

"It is easy to terrorise these communities," Mr Gingrich said. "The drug lords shut down schools and medical services, block food relief, and ambush federal agents. The Tarahumaras are given no choice. They must work with the drug cartels."

"The court system in Chihuahua is a revolving door for narco-murderers and a dungeon for the Tarahumaras," Mr Gingrich said. Convicted drug traffickers are usually released within a couple of weeks, while Tarahumaras can be framed for crimes they have not committed and spend years in jail, he said.

The Sierra Madre Alliance was formed in 1992 to fight illegal logging, but soon fell foul of the "narco caciques". Edwin Bustillos, a prominent environmentalist in Chihuahua and one of Mr Gingrich's colleagues, has survived three assassination attempts.

Mr Bustillos's uncle was stabbed and buried alive. Other field workers have had close shaves with the caciques's henchmen.

To placate the US, and contain the spread of drug cultivation, the Mexican government drafts thousands of army conscripts every year to destroy illegal crops. In 1997, Mexico claimed to have eradicated 17,732 hectares of opium poppy and 23,578 hectares of cannabis.

Federal agents in Batopilas, however, tell a different story.

In practice, only small plots are destroyed, often with the prior consent of the local drug caciques. And to maintain social peace, growers are allowed to replant their fields.

"There is no war against drugs here," one agent said. "We are not even fighting a losing battle."

Internet company accused

Federal regulators yesterday accused an internet company of misleading its customers about maintaining their privacy, AP reports from Washington.

The company, GeoCities, gives people free space to build web sites if they answer questions seeking personal information. In the first case involving internet privacy rights before the Federal Trade Commission, the government said GeoCities released personal details about its customers to advertisers, in violation of its own promises. According to the FTC the company had said it would not release information about a person's education, income, marital status, occupation and personal interests without permission.

As part of a settlement with the FTC, GeoCities agreed to rewrite its privacy statement on its own web site, explaining what information it collects and how it distributes it. The FTC also ordered GeoCities to obtain parental permission before collecting any personal data from children 12 and under.

GeoCities, based in Santa Monica, California, promotes itself as a community on the internet, offering free web pages in any of 40 themed areas.

In exchange its more than 2m customers give their name, street address, e-mail address, personal interests, education, occupation and marital status. The company promises not to release personally identifiable data to others, but it does warn that it gives aggregate information to advertisers.

NEWS DIGEST

THIRD FISCAL REVISION THIS YEAR

Caracas forced to adjust budget after oil price dip

The Venezuelan government is readjusting the 1998 budget for the third time this year and is seeking to refinance as much as $1.4bn in unspecified obligations, as oil prices have slumped to historic lows and market conditions for raising debt have deteriorated.

Maritza Izaguirre, finance minister, announced yesterday the government would recalculate this year's budget based on an oil price of $11.50 per barrel, down from the already re-estimated $13.50 per barrel and would seek to "refinance certain operations" worth $1.4bn. With each dollar per barrel representing $900m in government revenue, this year's shortfall exceeds $5bn. This week the price of Venezuela's oil fell below $10 per barrel.

Teodoro Petkoff, planning minister, told the daily El Universal the state oil company PDVSA would have to cut spending by an additional $800m this year, on top of previous cuts of $2.4bn. The government presented its proposals to a team from the International Monetary Fund visiting Caracas under a shadow programme signed with the government earlier this year. **Raymond Colitt, Caracas**

ARGENTINE LABOUR REFORM

Union protests delay bill

Argentina's lower house failed to begin voting on a controversial labour reform bill on Wednesday, amid violent protests outside Congress by unions opposing the bill.

The ruling Partido Justicialista (Peronists) was unable to assemble a quorum, falling 15 short of the 129 deputies needed to vote on the bill.

Debate on the proposed legislation, which the government has tried to pass for the last two years, is expected to resume next Wednesday. The bill, approved by the Senate, has the support of Argentina's main union, the Central General de Trabajadores (CGT) but rebel factions of the CGT oppose the legislation, along with the opposition coalition, the Alliance party.

Humberto Roggero, leader of the Peronists in Congress, said several deputies had death threats in the days leading up to the vote. **Andrea Mandel-Campbell, Buenos Aires**

PUERTO RICO

Debate on 51st US state vote

Puerto Rico's senate yesterday began discussing a proposal for a December referendum to determine whether the island in the north-east Caribbean becomes the 51st US state. This year is the centenary of US administration of Puerto Rico.

If the referendum is approved, Puerto Ricans will vote on December 13 on whether to continue the current quasi-colonial commonwealth relationship with the US, become the 51st state, or become independent.

In a 1993 plebiscite there was marginal majority support for retaining the current status. Five per cent of Puerto Ricans voted for independence. **Canute James, Kingston**

US TELECOMS CHARGES

Residential bills 'must be cut'

US consumer groups want federal regulators to make sure residential customers receive the same savings as large businesses from government-ordered cuts in telephone fees.

The Consumers Union and the Consumer Federation of America planned to ask the Federal Communications Commission yesterday to require phone companies to pass to all customers any savings stemming from government-ordered reductions in "access" fees – the payments long-distance companies make to local carriers to connect calls.

"We think everyone should get their fair share," Gene Kimmelman, co-director of the Consumers Union's Washington office, said yesterday.

The groups' filing was expected to be made later in the day. Access fees, which are passed on to customers, often account for 40 per cent of the average $22.50 monthly residential long-distance bill. **AP, Washington.**

Fujimori makes sudden visit to Brasília

By Sally Bowen in Lima

As diplomats stepped up their efforts to calm border tensions between Peru and Ecuador, Peru's President Alberto Fujimori travelled unexpectedly to Brasília yesterday, apparently at the personal invitation of President Fernando Henrique Cardoso.

Brazil is one of the four guarantor countries of the Rio de Janeiro Protocol, the 1942 framework peace treaty which ended the last full-scale Peru-Ecuador war. Brazil also acts as general co-ordinator for Momep, the guarantors' peacekeeping mission.

General Benedicto Onofre Bezerra Leonel, commander-in-chief of Brazil's armed forces, had met Mr Fujimori in Lima on Wednesday to reiterate Brazil's eagerness to see a peaceful solution to the border issue.

His visit came a day after a similar visit was made by Guido di Tella, foreign relations minister of Argentina, another of the four guarantors.

In statements after his meeting with Victor Joy Way, president of Peru's Congress, Mr di Tella said: "The presence of soldiers of the other country cannot be accepted or tolerated in this important period as negotiations are reaching their end".

Peruvians believe that some 300 Ecuadorean soldiers have infiltrated their territory in the northern jungle border area, and public opinion is hardening for them to be dislodged.

Contributing to growing anti-Ecuador sentiment are continuing reports of accidents caused by land-mines, allegedly planted within Peruvian territory by Ecuador. On Wednesday, a defence ministry communiqué reported that two more Peruvian soldiers had been badly injured by mines.

● Ecuador is relaunching the privatisation of the telecoms companies Andinatel and Pacifictel, Justine Newsome reports from Quito. The sale of 35 per cent of the state companies, called off twice by the previous government for lack of bidders, will take place in six months, Alvaro Guerrero, president of Conam, the state modernisation council, said.

In previous offers the price was set at a minimum $638m. The relaunch will form part of a plan including tax reform and external debt restructure.

India to sign up to patents treaty

By Amy Louise Kazmin in New Delhi

India has decided to accede to the Paris convention for the protection of intellectual property and the patent co-operation treaty, a move hailed as a key step forward for a nation that has long resisted recognising global intellectual property rights.

Acceding to the convention, which has been debated and contemplated in New Delhi for more than a decade, paves the way for India to sign a host of other treaties for the mutual protection of a range of intellectual property, including trademarks and industrial designs. Indian officials are also hoping that the decision will "improve the industrial climate" and encourage more research and development investment in India, by domestic and foreign companies.

"It's a major change in attitude," said Praveen Anand, a patent lawyer, who has long been arguing for a stronger intellectual property regime. A western diplomat who monitors intellectual property issues agreed that the decision indicated India was "looking out rather than looking in. They are recognising they have property of their own to protect."

The new attitude stems partially from an incident last year in which a US company, RiceTec, filed a patent for a new strain of rice which they called basmati rice. Indians were in an uproar over the use of the word basmati, which they argued should only be used to refer to rice cultivated in a particular area of south Asia.

A handful of Indian pharmaceutical companies, now strengthening their own original research and development efforts, have also been calling for stronger and more efficient regimes to protect their research investments.

The government said that membership of the Paris convention would give Indian inventors a boost by enabling them to apply for patent protection in India and each of the convention's other 146 member countries with a single application.

As a signatory India would also be a more attractive destination for multinational companies to set up research and development facilities, Mr Anand said.

Under current Indian laws foreign companies employing Indian scientists for research work must apply for any patents in India first, which has disadvantaged them in applying for patents in other countries. Once India signs the convention a company filing a patent in India will not lose filing priority in other countries.

The government also said that being a member of the treaty would relieve pressure on India's own patent offices by giving them access to the reports of the international patent office when examining applications.

Indian patent offices will also have to upgrade to conform with global standards. "The whole focus will have to be changed to speed," he said. "From a lazy intellectual property regime, it will become a hyperactive regime."

India still has a long way to go in reaching global standards in intellectual property protection. The country currently has no law to protect patented chemical and pharmaceutical products; its domestic patent law only recognises and gives protection to patented chemical processes.

That has left Indian companies free to find alternative methods of producing patented products, like pharmaceuticals, and has made India a flourishing base for production of pirated drugs. The US and other countries have long been pushing India to adopt a more stringent law to protect patents.

Music's 'big five' dip toes in common distribution pool

Alice Rawsthorn on how record companies are trying to save costs while retaining a rapid response to customer demand

For years the European music market has been dominated by the "big five" multinationals – PolyGram, Sony, Warner, EMI and Bertelsmann – and one factor that has distinguished them from their smaller rivals is that they operate their own distribution facilities.

However, most of the big five are now discussing cutting costs by pooling distribution in various European countries. Over the next few months they are expected to agree terms to launch distribution joint ventures across the continent.

This realignment reflects the pressure on them both to cut costs at a time of static record sales and to adapt to the structural changes in the music market, which was worth $12.7bn at retail in Europe last year.

"Our industry is going to look very different in five years time, and we've got to change the way we manage our businesses – reassessing distribution will be part of that process," said Richard Griffiths, head of Bertelsmann's music interests in the UK and central Europe.

Distribution, whereby compact discs and cassettes are dispatched from factories to retailers and mail order outlets, tends to be regarded as a less glamorous area of the music business.

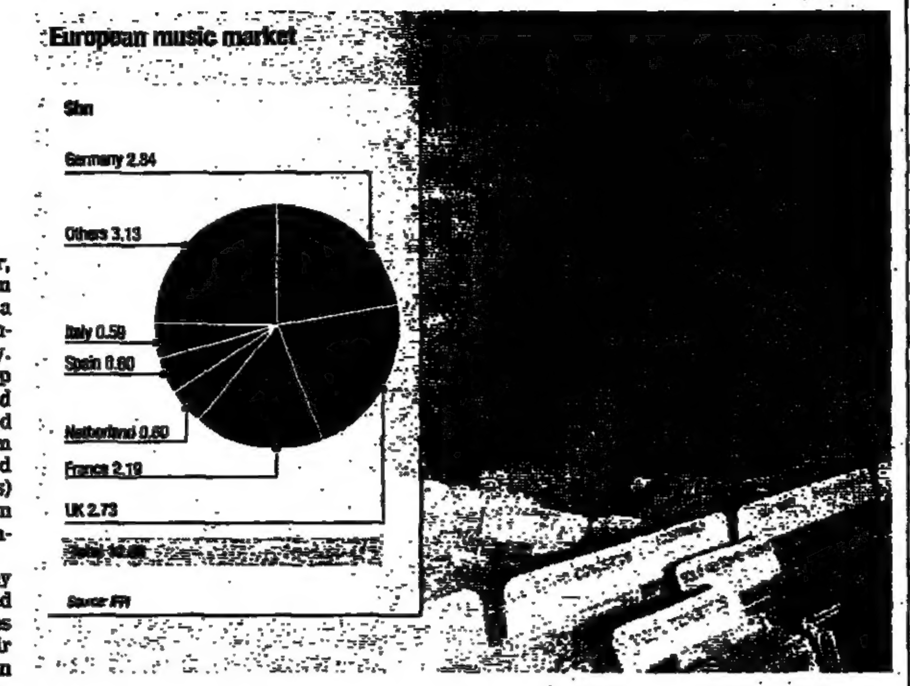
However, it plays a critical part in determining the efficiency of record companies by ensuring that each of their retail customers receives adequate supplies of a particular album or single.

Efficient distribution is important to any business, but particularly so in a fast-moving market like music, where consumer demand is unpredictable. Missing an opportunity to sell a record can jeopardise its chances of securing a high position in that week's chart.

When any of the big five organise their European distribution systems they have to balance the need to drive down costs with retaining the flexibility to provide a speedy service to every area of a highly fragmented and very volatile market.

The cheapest option would be to handle all their European distribution through one or two highly automated centralised depots. However, this would not give them enough flexibility in a diverse market where consumer taste differs widely. Typically, the big five ship their freshly manufactured releases to a centralised European depot (PolyGram has one in Germany, and Sony's is in the Netherlands) and on to local distribution centres in different countries.

It seems likely that they will retain their centralised depots, but may join forces with one or more of their rivals to pool distribution facilities in individual countries.



Earlier this year Warner and Sony set a precedent in the UK by becoming the first multinationals to merge their distribution interests there. Sony had already decided to modernise its UK distribution centre in Aylesbury, and asked Warner whether it wanted to be a 50 per cent partner in the site. Warner agreed, as joining forces with Sony would be cheaper than upgrading its existing facility in Alperton, north London. The Alperton site will close.

Similar deals are being negotiated in other European countries. Meanwhile, the contract whereby Bertelsmann's music division handles European distribution for Universal Music, the US record company owned by Canada's Seagram, expires next year. Universal's distribution will then be handled by PolyGram, for which Seagram has mounted a $10.4bn bid.

As an alternative to forming joint ventures, some of the big five may contract out their local distribution to specialist distributors. Bertelsmann has set up a special division (run separately from its music business) to operate multi-product distribution centres, which handle everything from compact discs and books to mobile phones.

Having set up these centres in Germany and Spain, Bertelsmann Distribution now plans to launch similar operations in the UK and Italy. It is pitching for contracts from fellow group subsidiaries and third parties, including Bertelsmann's own record labels and their competitors.

Forming local joint ventures or contracting out distribution may address the immediate need to cut costs. However, it will not necessarily provide a long-term solution for the big five at a time when the prospect of European monetary union and the development of a cross-border internet music market could prompt them to reassess their distribution requirements yet again.

S Korea set to lose in whisky dispute

By John Burton in Seoul

The World Trade Organisation is expected to issue a formal ruling soon that South Korea has discriminated against imports of whisky and other distilled liquors by levying higher taxes on them than on locally made spirit, known as *soju*.

Seoul claimed that *soju* and foreign distilled liquors were not in the same category of drinks and thus should be taxed at different rates, but a WTO dispute settlement panel has concluded that *soju* competes directly with imported liquors.

The US and European Union brought the case before the WTO claiming the higher taxes on liquor imports amounted to a trade barrier. *Soju*, which is regarded as a working man's drink in Korea, is taxed at 32.5 per cent while imported spirits, which are considered a luxury product, are taxed at 100 per cent.

The EU and US acknowledged that Korea had reduced the gap between taxes on *soju* and other spirits since 1993, but the difference remained "significant". Two rounds of talks between the two sides last year and a meeting organised through the WTO had failed to resolve the issue.

Korea is expected to appeal against the finding once the WTO's dispute settlement panel approves it in September, but western diplomats in Seoul believe the decision will not be overturned.

Seoul will have 15 months to introduce more equitable taxation on *soju* and imports by either raising duties on *soju* or lowering them on imported spirits. The Korean ruling is similar to a case involving *shochu* in Japan, which it lost in 1996. The EU had warned several times during the WTO case on Japanese liquor taxes that the "clock was ticking" for Korea.

Shell rig order for Texas group

By Justin Marozzi in Manila

Shell Philippines Exploration (Spex) yesterday said it had awarded a $400m contract to Brown & Root Energy Services, a Texas-based group, to design and build an offshore platform in the southern Philippines.

David Greer, managing director of Spex, said the platform will consist of a 10,000-tonne deck and a concrete gravity substructure installed 43 metres beneath the sea and connected to deep water wells 800 metres deeper.

The Malampaya project, which envisages natural gas supply to the northern mainland of Luzon beginning in 2002, was "a landmark project in the global oil and gas exploration industry," considering the distances involved across open seas, Mr Greer said.

The gas field lies 80km from the south-western island of Palawan, from where a 500km pipeline will transport the gas to Batangas in Luzon. Until recently, the project was a joint venture between Shell and Occidental Petroleum of the US, but it is now fully under the Shell umbrella.

"This is the largest ever investment in the Philippines' oil industry," said Rey Marquez, executive director of the Philippine Institute of Petroleum, a trade association. "We estimate that once the natural gas is in full flow, it will save the country 20 per cent of its crude oil imports. It's a major boon to the economy."

News of progress on the Malampaya project provides a note of optimism amid a worsening economic outlook for the Philippines. The business community believes the investment climate is deteriorating under President Joseph Estrada, whose administration is on the defensive after only six weeks in office, amid accusations of crony capitalism and a drift in policy.

DIPLOMATIC OPTION SADDAM URGED TO RESUME CO-OPERATION ☐ US FACES POLICY DILEMMA

UN presses Iraq on arms inspection

By Richard Wolffe in Washington, Roula Khalaf in London and Laura Silber at the UN in New York

The United Nations special envoy to Iraq yesterday arrived in Baghdad carrying a firm message urging President Saddam Hussein to resume co-operation with UN weapons inspectors.

Prakash Shah, special envoy of Kofi Annan, UN secretary-general, delivered Mr Annan's message to Tariq Aziz, Iraq's deputy prime minister, in the afternoon.

The UN Security Council, divided over how to deal with Iraq, has been looking to the secretary-general to work out a diplomatic solution to the crisis, which erupted after the Iraqi government last week suspended co-operation with UN weapons inspectors. Iraq demanded that Unscom, the inspectors' commission, be restructured and that it immediately declare Iraq free of weapons of mass destruction.

Mr Annan was promised that Iraq would co-operate with inspectors last February, when he defused an earlier UN-Baghdad crisis and averted a US and UK-led military strike on Iraq.

His attempt to deal with this crisis comes as the US government is facing criticism at home for seemingly softening its policy to Mr Saddam's defiant stance on weapons inspections.

Mr Saddam has created a dilemma for the US. In the last round of confrontation with Iraq in February the US realised the lack of appetite for a military strike, both at home and abroad. With France, Russia and China arguing for a softer policy towards Baghdad, Mr Saddam is also attempting to divide the Security Council even further, a move the US is struggling to resist.

So instead of what the White House calls a policy of "diplomacy backed by military action", today's approach appears purely diplomatic. Where Washington took the initiative in February last year to force Iraq into line, it now appears more keen to wait and see whether the United Nations can hold Iraq to the deal signed in February. The hope is that Mr Annan can work out a deal which allows inspections to resume, after making cosmetic changes to Unscom which do not, in effect, undermine it.

"There has been a rethinking in the administration, partly because of the very strong global reaction against the use of military force last time, and partly because of what I consider the administration's poor management of that crisis in their public efforts to explain what they were doing," said Judith Kipper, Middle East director at the Center for Strategic and International Studies in Washington. "Using the UN secretary-general is a much more viable way to proceed, as long as there is no chance of sanctions being lifted."

UN officials, however, believe that Iraq appears to have won this latest round, bolstered by the fact that the US has shown little stomach for a fight. One official pointed out that in February the conflict was over access to eight "presidential compounds" – and the accord struck by Mr Annan narrowly averted military action. This time, he said, the stand-off is much more significant and there is not even a threat of tough, punitive measures against Baghdad.

An Iraqi man and his wife leave a government food distribution point near Baghdad yesterday carrying their week's rations. Food imports are controlled by the UN until the weapons crisis is over Reuters

World Bank policies 'boosting poverty'

By Nancy Dunne in Washington

World Bank policies are boosting poverty and unemployment, according to an investigation undertaken by the bank together with some of its harshest critics.

The accusations against the bank's structural adjustment programmes have emerged in two conferences with citizens' representatives from a broad spectrum of society in Hungary and Uganda.

These two countries are considered by the World Bank to be success stories, but when officials met local people in the countries they are supposed to be helping, they heard different views.

Structural adjustment programmes (SAPs), seen by the bank as necessary to get economies on a sound financial footing, have long been the object of attack by populist and progressive groups. SAPs often require government budget cuts, which fall most heavily on the poor. The theory is that eventually the poor will benefit from a growing economy.

Last year James Wolfensohn, World Bank president, made a dramatic gesture in agreeing to an initiative to review structural adjustment with the client governments and a broad array of their citizens – from labour, business, agriculture and non-governmental organisations. Mr Wolfensohn said he was willing "to take a look at what's been done and see what lessons there are for the future".

The inquiry began with two conferences in June, to be followed by forums in Ghana and Ecuador next month, and other nations later. Public debates will be followed by field studies by consultants selected by the bank and its critics.

Tony Avirgan of the Development Gap, a group organising foreign input into the inquiry, said that in both countries, bank officials were told by local economists and researchers that liberalisation and privatisation programmes had destroyed jobs and local industries.

In Hungary, the small and medium-sized companies that employ 70 per cent of the workers have been severely damaged, economists told the bank. Overall employment has been cut by 1.5m, or 30 per cent. Local Hungarian groups said 70 per cent of the population had lost at least 40 per cent of its real wages, while social services had been sharply cut.

In Uganda, rapid liberalisation and high interest rates were hurting small business. Lack of government aid and transport systems have hit cotton farmers and producers of indigenous crops. Malnutrition is on the rise. An estimated 350,000 workers have lost their jobs as part of the privatisation process. "There has been no training and little or no severance pay."

Bank officials were told that in both countries workers' rights had been neglected. In Hungary, employers used the threat of further sackings to ignore safety, overtime and other labour laws.

In Uganda, employees were being underpaid, and labour regulations were not followed. It is not clear that bank officials were impressed by the testimony, though they say they are committed to the inquiry.

Rebels 'seize Congo port'

Congolese rebels have taken the airport at the western river port of Matadi, are advancing on the town and have also seized the key Inga power plant on the Congo River, a rebel leader said yesterday, report AP in Goma and Reuter in Kinshasa.

"The airport has fallen into our hands. Government troops have dispersed. We are marching into town tonight," said Jean-Pierre Ondekane. "The objective is Kinshasa. It should fall in the next few days, by the end of the week or by the end of the month for sure."

He also said some rebel troops had advanced as far as Kasangalu, 30km south-west of Kinshasa.

The Inga dam is built at falls on the Congo River 40km upriver from Matadi. It supplies hydroelectric power to southern Congo, Kinshasa and northern Zambia. Kinshasa was hit by a power cut yesterday that crippled much of the city centre, residents said. The cause of the blackout was not known.

Mr Ondekane said government troops were looting Matadi, Congo's principal port that lies 120km upriver from the Atlantic coast. He also said rebel troops had captured Bunia, 360km north of Goma in the north-eastern Masisi region.

The government of President Laurent Kabila operated a radio station from Bunia that had been urging residents to take up whatever arms they had to kill ethnic Tutsis in the region.

Mr Kabila claims that neighbouring Rwanda and Uganda are helping rebels, many of them ethnic Tutsis, who are trying to oust him.

Both countries were important backers of Mr Kabila in his eight-month drive to oust longtime dictator Mobutu Sese Seko. Mr Kabila assumed power in May 1997. Relations with his former backers have been gradually deteriorating.

NEWS DIGEST

FINNISH BUDGET

Helsinki to cut spending by 6 per cent next year

The Finnish government yesterday announced a cut in public expenditure of almost 6 per cent for 1999, following a new budget agreement among members of the country's five-party coalition. The government predicted total spending next year would be FM186.8bn ($34.7bn), with a forecast general government surplus of 2.5 per cent of GDP.

The ministry of finance warned that most areas of public expenditure would be affected by spending cuts or deferred investment, including construction projects, local authority grants, defence and support for the private sector. The cuts have been coupled to tax cuts, with income taxes for average wage earners falling to 35 per cent. When the coalition came to power in 1995, the rate was 38 per cent.

Unveiling the draft budget, Sauli Niinistö, the finance minister, said unemployment should fall to 9 per cent next year, down from almost 16 per cent when the government took office. GDP is expected to rise by 5.5 per cent this year and 4 per cent in 1999. **Tim Burt, Stockholm**

ENVIRONMENT CAMPAIGNING

Greenpeace donations decline

Smaller grants and "donor fatigue" led to a 10 per cent cut in the operating budget of Greenpeace last year, prompting the environment campaign group to change its fund-raising tactics. Thilo Bode, executive director, said Greenpeace was reducing its canvassing activities, traditionally the main source of income, to pursue more long-term contributors via direct debits.

Total income fell to $125.6m last year from $139.9m in 1996. The Greenpeace director noted that donations from Germany, its biggest source of support, dropped last year. In Germany, "the environment has gone way down on the agenda. Jobs are now the biggest concern [there]."

Greenpeace warned that at least 25,000 plant and animal species could die out and 20m hectares of ancient forest degraded or totally destroyed by the year 2000. The group's annual report recommends six urgent measures.

They include a ban on all polyvinylchloride (PVC) products, a phase-out of nuclear energy, a global stop on licensing of new oil exploration and a ban on industrial logging in ancient forests. Greenpeace, which has its international headquarters in Amsterdam, said that nearly 80 per cent of the world's ancient woodlands had already been destroyed. **Jeremy Gray, Amsterdam**

LESOTHO CLASH

Three hurt in shootout

At least three people were wounded in the capital of Lesotho yesterday when shooting erupted during a clash between rival parties disputing the outcome of a recent election.

It happened as government supporters tried to take over the opposition headquarters, said Evaristus Sekhonyana, leader of the opposition Basotho National party.

Supporters of the government, which won all but one of the 80 parliamentary seats in the May election, have clashed with protesters who claim the vote was rigged during four days of a protest strike. **Reuters, Maseru**

Diverse Japanese opposition parties edge closer to common ground

Khozem Merchant reports on an attempt to bring pressure on the bruised government

Japan's political opposition has rarely stuck together in times of political turbulence. But several signs suggest that the diverse parties are binding closer for a united assault on the ruling Liberal Democratic party (LDP).

This week the Democratic Party of Japan (DPJ), the New Peace party and the Liberal party edged closer to a common position on the banking crisis. If they formalise the position, they would increase pressure on a battered government, which is struggling to pass six finance bills, including one on a "bridge bank" aimed at closing ailing banks without upsetting the financial system.

This is the opposition's opening gambit. If it endures in the heady weeks ahead when the government's Financial Supervisory Agency reveals its potentially explosive audit of weak banks, it could lead to further co-operation on a no-confidence vote. This would be the first step to a dissolution of the lower house of the Diet and a general election.

That prospect is distant because the opposition needs 12 LDP defectors to inflict a defeat on the government in the lower house. But a united opposition can still defeat the government in the less powerful upper chamber.

"The opposition has taken a first step. They have learned from the past that alliances without policy unification will not win popular support," says Minoru Morita, a political analyst.

A failure to unite could be costly, he adds. "It will take a long time to achieve because there are immense differences over the banks and also over tax cuts. But if the opposition fails to unite, the public will punish them at the next election." They simply could not fail to unite this time given the exceptional circumstances.

If the opposition does agree on alternative banking bills the result could be the passage of government-sponsored bills in the lower house and of opposition-backed ones in the upper house, where the LDP is in a minority.

A joint committee of the two houses would then thrash out a compromise. The LDP, which lacks the two-thirds majority in the lower house needed to pass bills rejected by the upper chamber, would then be forced to give ground.

The feeling in the opposition camp is that the confluence of crises in the markets, the ailing economy and political turmoil presents a triple whammy with which to batter the government.

Failure to unite could be costly. It could lead to punishment at the hands of voters at the next election

Rarely has the opposition enjoyed such *de facto* support from "outside forces": the markets, Japan's main trading partners as well as the electorate have assailed the government for its timidity and incompetence.

In Naoto Kan, the DPJ leader, the opposition also possesses the most popular politician in Japan. He is young by domestic standards and has a no-nonsense directness that has earned him the nickname *Ira-Kan* – Irritable Kan.

Equally significant is that co-operation would demonstrate that the opposition is capable of acting responsibly by producing policies on an issue that is central to reviving the economy.

In the past, they have rarely gained political capital for policy-making. This was in part because their ideas differed little from the "market-based, social democratic" agenda of the dominant LDP – but also because they were widely viewed as a mixed bag of opportunists with policies ranging from the nationalistic to the unrealistic.

In any case, they will want to avoid a repetition of an earlier high-profile anti-government demonstration, in 1996, when the New Frontier party (NFP) staged a sit-in in the Diet to protest against LDP plans for the financially ruinous *jusen* (housing) scandal. The NFP's popularity subsequently sank. This time the opposition wants to stick to policies, not play-acting.

Masaru Hayami: 'government unlikely to reach growth target'

WEAK YEN PRESSURE TO BOOST DEMAND

Japan's trade surplus soars

By Khozem Merchant in Tokyo

Japan's current account surplus rose 46.2 per cent in June compared with the same period a year ago, the 15th consecutive monthly rise, while the politically sensitive merchandise trade surplus swelled 25.4 per cent over the same period. The rise was driven by the weak yen, which strengthened exports, and falling imports resulting from sluggish demand in Japan.

The figures exceeded analysts' forecasts and may increase political pressure on the Japanese government to boost domestic demand.

Masaru Hayami, governor of the Bank of Japan (BoJ), said the government was unlikely to achieve its target of 1.9 per cent real growth in gross domestic product in 1998-99.

The BoJ said in its monthly report, published yesterday, that domestic demand was still weak, and employment and income conditions were worsening. It said consumer confidence, already stubbornly low, "could turn weaker" if unemployment exceeded its current record 4.3 per cent.

The gloom contrasted with upbeat comments from Eisuke Sakakibara, the influential vice minister for international affairs, who said an upturn in Japan's economy "would come in August-September".

The current account surplus in June totalled Y1,444bn ($9.88bn), taking the surplus for the six months to June to Y7,573bn, up 52.9 per cent from the same period a year earlier. The merchandise surplus rose to Y1,371bn, with exports up 4.3 per cent in June year-on-year to Y4,171bn. Imports over the same period fell 3.7 per cent to Y2,800bn.

"This will provoke more calls from Japan's trading partners for greater domestic demand stimulus," said Jeffrey Young, economist with Salomon in Tokyo. It was a point Robert Rubin, US Treasury secretary, was likely to press in talks with Kiichi Miyazawa, Japan's finance minister.

Manila water ruling expected

By Justin Marozzi in Manila

The Manila water regulator is expected to rule today on a petition from companies to raise tariffs to compensate for the regional currency crisis and the El Niño weather phenomenon in a move that is likely to cast a cloud over the world's largest water privatisation.

Reynaldo Bea, administrator of the Metropolitan Waterworks and Sewerage System (MWSS), said in an interview that a decision had been reached on requests made in April by the two consortia operating the city's water system to increase prices. "Some items will be granted and others will not," he said.

Mr Bea declined to give further details of the ruling, but admitted it might cause controversy. "I think there may be people who might not be happy with that but on the whole I think people will see it as reasonable," he said.

Public opposition to price increases is also likely to be compounded by protests from at least one of the two consortia that the tariff adjustment is inadequate. Manila Water – which groups Ayala Corp, the Philippines' largest listed conglomerate, with United Utilities of the UK and Bechtel of the US – is seeking the regulator's approval for an extraordinary price adjustment that would more than double its rate initially from 2.32 pesos per cu m to 5.55 pesos per cu m.

The consortium stunned observers last year with its aggressive bid that was less than half that of Maynilad Water, the other consortium that includes Benpres, the local utility and infrastructure conglomerate, and Suez-Lyonnaise des Eaux of France. Maynilad Water requested a smaller rise in its tariff from 4.96 pesos per cu m to 5.71 pesos per cu m.

In its petition to the regulator, Manila Water cited the 52 per cent devaluation of the peso that had increased costs of servicing MWSS loans and operating and capital expenditures, as well as the El Niño weather pattern.

Reacting to an earlier report that MWSS will not look favourably on its petition, Alberto Jugo, finance director of Manila Water, said: "Obviously it's something we will contest because it totally violates the provisions of the concession agreement. It is totally incomprehensible."

NEWS DIGEST

ASIA CRISIS

HK trade volumes shrink following slack demand

Trade volumes in Hong Kong shrank in the first half of the year, sapped by slack demand from neighbouring countries suffering from the Asian financial crisis. The value of Hong Kong's re-exports – goods rerouted mainly from China, the engine of trade in the territory – fell 1.6 per cent to HK$566.1bn (US$73bn) in the first six months of the year.

But demand in Hong Kong itself was also weaker, as reflected by the 5.7 per cent decrease in the value of imports to HK$724.1bn. Unlike many countries in the region, Hong Kong's imports are largely for domestic use rather than raw materials used for the manufacture of exports. **Louise Lucas, Hong Kong**

SINGAPORE

Plan to ease dollar guidelines

Lee Hsien, deputy prime minister and chairman of the Monetary Authority of Singapore (MAS), said yesterday his country was liberalising guidelines on use of the Singapore dollar. But he added that Singapore was not internationalising the unit and would not tolerate currency speculation. Mr Lee said a study had concluded that Singapore "should not encourage the internationalisation of the Singapore dollar" because the existing policy made it harder to mount speculative attacks on it.

He felt the restrictions hindered speculators who needed to borrow the Singapore dollar to short the currency and impeded the development of an offshore market beyond the authority's influence.

The policy "has an important deterrent effect, signaling MAS determination not to tolerate speculation in the Singapore dollar", he said in a speech at the launch of a MAS electronic payment system. **Reuter, Singapore**

CAMBODIA

King keen on mediation

Cambodia's King Norodom Sihanouk yesterday said he was ready to mediate in his country's post-election dispute, which threatens to provoke a constitutional crisis next month.

The ruling party of Hun Sen, second prime minister, won a slight majority in last month's election but did not get enough parliamentary seats to form a government. The opposition Funcipec party, led by the king's son Prince Norodom Ranariddh, and the Sam Rainsy party, led by the reformist former finance minister of the same name, have threatened to boycott parliament unless serious investigations into alleged voting fraud are launched.

The National Election Commission, stacked with supporters of Mr Hun Sen, has dismissed the fraud claims and is winding up its operations. If Funcipec and Sam Rainsy MPs boycott the first seating of parliament in late September, Cambodia could be left without a government.

The king said he would be willing to host an informal meeting of at least two parties to try to forge what many analysts see as an eventual coalition between Mr Hun Sen and Funcipec.

Prince Ranariddh and Mr Rainsy have expressed interest in the king's idea. **Ted Bardacke, Bangkok**

PAKISTAN LEGHARI HOPES TO BENEFIT FROM POLITICAL ACRIMONY

Former president plans 'clean politics' party

By Farhan Bokhari in Karachi

Farooq Leghari, the former Pakistani president, is set to launch a new political party today, in the latest effort to find an alternative to the country's increasingly criticised two main political parties.

The Millat party is expected to announce that "clean politics" and "true federalism" will be part of its guiding principles. The new party hopes to benefit from a growing sense of apathy among Pakistanis towards mainstream political parties, best reflected in a modest turn-out of voters during the most recent elections.

Mr Leghari is entering the political arena at a time when the ruling Pakistan Moslem League of Nawaz Sharif, the prime minister, is battling growing unpopularity over its handling of the country's politics and the economy.

The days preceding Mr Leghari's announcement have witnessed growing acrimony between the government and the opposition parties over the construction of the controversial Kalabagh dam project.

Nationalists in Pakistan's three smaller provinces – Sind, North-West Frontier and Baluchistan – say that Mr Sharif is obsessed with the dam, which is only meant to benefit Punjab, his home province. The controversy has shown signs of the becoming a focus for debate over the rights of the provinces in Pakistan's federal structure.

Mr Sharif is also trying to stave off an impending foreign debt crisis. Analysts say that even if the government succeeds in gaining time on the back of an IMF loan agreement that it is seeking, Mr Sharif's political future could remain troubled. An IMF loan could come with tough conditions which would be resented by the public.

Separately, Benazir Bhutto, the leader of the Pakistan People's party, the main opposition, remains embroiled in charges of corruption against herself and her husband, Asif Ali Zardari.

In the latest setback to Ms Bhutto's legal fight, she and her husband were indicted on Wednesday by a provincial high court in Pakistan.

Prosecutors say that Ms Bhutto and Mr Zardari influenced the decision to give a contract for gold imports to a Dubai-based business while she was the prime minister. Ms Bhutto and Mr Zardari have denied the charge.

Sharif urged to tighten laws on loan defaulters

By Farhan Bokhari

The State Bank of Pakistan (SBP), the central bank, is to ask Nawaz Sharif, prime minister, to tighten the country's laws for improving compliance with court verdicts against bank loan defaulters.

The bank's request follows concern that court verdicts, including those seeking to freeze borrowers' assets, are difficult to enforce, largely due to weaknesses in the legal system.

Criticism has increased over last month's campaign against defaulters who owe Rs157bn ($3.1bn) to public-sector banks. The loans were given under orders from successive governments since banks were nationalised in the early 1970s.

Many borrowers who received the loans as official patronage chose neither to repay the principal nor the interest. Privately, senior bankers say the campaign to arrest defaulters has made little progress.

So far less than 20 such borrowers have been arrested, bankers say. The central bank estimates that almost 70 per cent of the money is owed by just 369 borrowers, including many influential individuals.

"We will advise the government in coming days, either to make changes in the law or carry out administrative changes to improve compliance with decrees [court orders]," said Muhammad Yaqub, SBP governor, in an interview.

The scope of the campaign against defaulters would be broadened to include investigations against bankers who lent billions of rupees that were never repaid, Mr Yaqub added. "It's not only borrowers, but bankers who didn't lend with prudence who should be dealt with under the law."

The success of the campaign is important for Pakistan's chances of winning a new international rescue package to stave off a foreign debt crisis.

Bankers in Karachi say that weak resolve in tackling the defaults would only undermine Pakistan's case.

"It's the essential litmus test that the outside world would watch. Without aggressive action [against defaulters], Pakistan's reforms are just hype and hollow," a senior banker claimed.

The issue is also vital to Mr Sharif's credibility. The prime minister has promised tough action, but Pakistan's opposition parties, which are attacking the government for its handling of the economy, say official resolve remains weak.

There is also concern over the official reluctance to reveal the names of all defaulters.

CURRENCY TACTICS TIMING OF MONETARY AUTHORITY INTERVENTION HAS RAISED DOUBTS

Why the money markets are sniffing blood in Hong Kong

By Louise Lucas in Hong Kong

The latest assault on the Hong Kong dollar has raised question marks over the role of the Hong Kong Monetary Authority (HKMA), the territory's *de facto* central bank and guardian of its hefty foreign reserves.

Acting on behalf of the government, the HKMA absorbed selling pressure over the past two weeks by intervening in the markets to buy Hong Kong dollars.

The government needs the Hong Kong dollars to meet expenses, the HKMA explains. June to November is traditionally the "dry" season for funds, before tax receipts come in, and this year the requirement is exacerbated by the projected budget deficit of HK$21.4bn (US$2.76bn).

But the timing of the HKMA's intervention, at a time when the currency was under attack, suggests that the government is unwilling to take the pain involved in maintaining Hong Kong's currency board mechanism. That, in turn, raises questions over the fate of the currency peg to the US dollar.

As the last main fixed exchange rate among Asia's fully convertible currencies, the resolve of the Hong Kong government in maintaining the peg is being closely watched.

Government officials have given repeated assurances that the peg will stay, and its US$96bn foreign reserves are more than sufficient to fend of speculators.

Donald Tsang, financial secretary, yesterday warned that speculators would be given short shrift. "If speculators wish to do something, we will deal with them very decisively," he said.

Under the currency board mechanism, when selling hits the Hong Kong dollar, it automatically triggers a sharp rise in interbank interest rates. This, in turn depresses asset prices, in effect making Hong Kong's costs more competitive with those of neighbouring countries whose currencies have been devalued.

The HKMA's intervention in the past two weeks throws into doubt the authorities' willingness to live with the resulting pain of high interest rates.

Donald Tsang: decisive

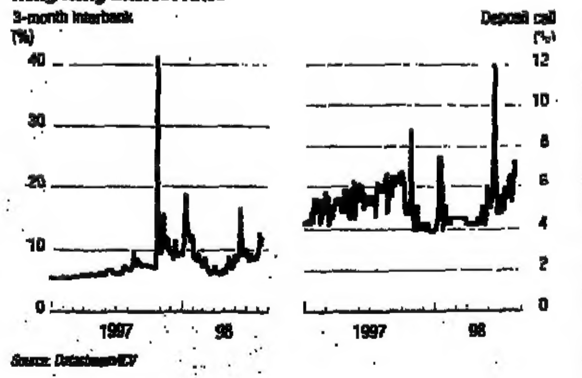
Its intervention has also invited a more protracted tug-of-war between speculators and the government in the days ahead.

"The slower rise in interest rates, and hence carrying-costs for borrowers, will enable speculators to sustain their attacks for a longer period of time," points out Eddie Wong, North Asia economist for ABN Amro.

"More rumours will be spread around. The stock market will face more pressure. Expect more fights in the next couple of weeks," he notes.

However, dismantling the peg would not bring relief to Hong Kong either. If the peg were dismantled, interest rates would rise and property prices would plunge. There would also be capital flight as foreign investors retreated.

Even so, maintaining the peg is proving painful. The economy shrank 2.8 per cent in the first quarter, unemployment is at a 15-year high of 4.5 per cent and the stockmarket is at 1993 levels.



Thus, when the government is seen to be tinkering at the edges of the currency board mechanism, the markets start to sniff blood.

"Although this [buying of Hong Kong dollars] is totally legitimate under Hong Kong's currency board system and is based on a genuine need [to fund the deficit], it is still more of an excuse than anything," says Mr Wong.

An HKMA spokesman demurs: "There were exactly the right market conditions for us to switch [into Hong Kong dollars]. We are adhering strictly to the currency board principle," he said.

But doubts have been sown, and capitalising on these doubts are the hedge funds and investment banks, some of which have rushed out call warrants that will yield substantial profits for them if the Hong Kong dollar depreciates to HK$7.8 from current levels over HK7.75.

With a long weekend round the corner in Hong Kong and its promise of thin trading, dealers reckon speculative activity will escalate.

Mr Wong expects "a big showdown between the government and currency speculators." If that happens, "both sides could lose big", he warns.

INFORMATION TECHNOLOGY CONSORTIUM LED BY US COMPUTER SERVICES GROUP TO SUPPLY BUS AND RAIL TICKETING SYSTEM

EDS wins $2bn London smartcard deal

By Christopher Price in London

A consortium led by Electronic Data Systems of the US, the computer services company that has won many big UK public sector information technology contracts, has been awarded a £1.4bn ($2.3bn) order to install the world's biggest smartcard ticketing system for London's transport system.

The project will cover all of London's Undergound railway system, 5,800 buses and the 2,500 shops selling London Transport tickets. All Underground stations will be fitted with new barriers, opened by a smartcard fitted with a microchip. Users will be able to "load" money into the cards at a variety of terminals, including new electronic point-of-sales equipment at stations and in shops.

There will also be touch-screen booths where cards can be issued and transport information requested. The new system is expected to greatly reduce the amount of fraud on London Transport, currently running at £30m a year on the Underground alone.

David Courtley, managing director of EDS UK, said the smartcards would not just be used for accessing the trains and buses. "Smartcards open the door to an enormous range of marketing and customer service opportunities, such as stored value travel, loyalty schemes, pay-as-you-go systems, as well as uses outside the travel system."

These could include links with other smartcard systems, such as the so-called electronic purse, currently under development.

The contract, issued under the government's private finance initiative – which aims to attract private cash to public sector infrastructure projects – will be administered by Transys, a consortium in which EDS and Cubic Corporation of the US each hold a 37.5 per cent stake. ICL, the Japanese-owned computer services company, has 20 per cent and WS Atkins, the UK engineering group, the remainder.

The contract will run for 17 years.

Transys itself will invest £200m in the new system. EDS will have management responsibility for the contract, provide management services and will take over all London Transport's revenue collection. Up to 100 London Transport staff will be taken on by EDS. Cubic will be responsible for the barriers, ICL for the electronic payment systems and WS Atkins will provide engineering services.

The consortium's income will depend on how often the system is used. "Like with all our PFI contracts, it ensures that we deliver value for money," said Mr Courtley.

Work will begin immediately but the smartcard technology is unlikely to be installed for at least two years.

Transys was the only consortium to bid for the LT contract after consortia led by British Telecommunications, IBM and Andersen Consulting dropped out.

The latest EDS win comes just weeks after the company was awarded a £250m contract to run the computer services division of the government's employment department for the next 10 years.

Seeboard Powerlink to reform Underground railway's power distribution

A contract to take over responsibility for all aspects of London Underground's high-voltage power distribution, expected to be worth £1bn ($1.6bn) over its 30-year life, has been awarded to the private sector Seeboard Powerlink consortium, **John Griffiths** writes. The group includes the BICC and ABB engineering groups.

The deal should result in the Underground network being made "significantly more reliable", said John Prescott, deputy prime minister and chief transport minister. Under the deal the consortium will become responsible for the operation, maintenance, financing and renewal of the power distribution system which supplies the railway's 270 stations and 400km of track.

That biggest single element of the contract will be construction and installation work worth £100m which will enable the system's dedicated power station in west London, which is nearly a century old, to be closed.

The second power station on which the network is currently dependent, at Greenwich, south-east London, will be retained as an emergency power source. The contract – let within the framework of the government's private finance initiative, which is designed to attract private sector cash to public infrastructure projects – is intended to cut the number of power failures which occasionally paralyse parts of the network and trap thousands of passengers underground.

Hulk heads list of endangered piers

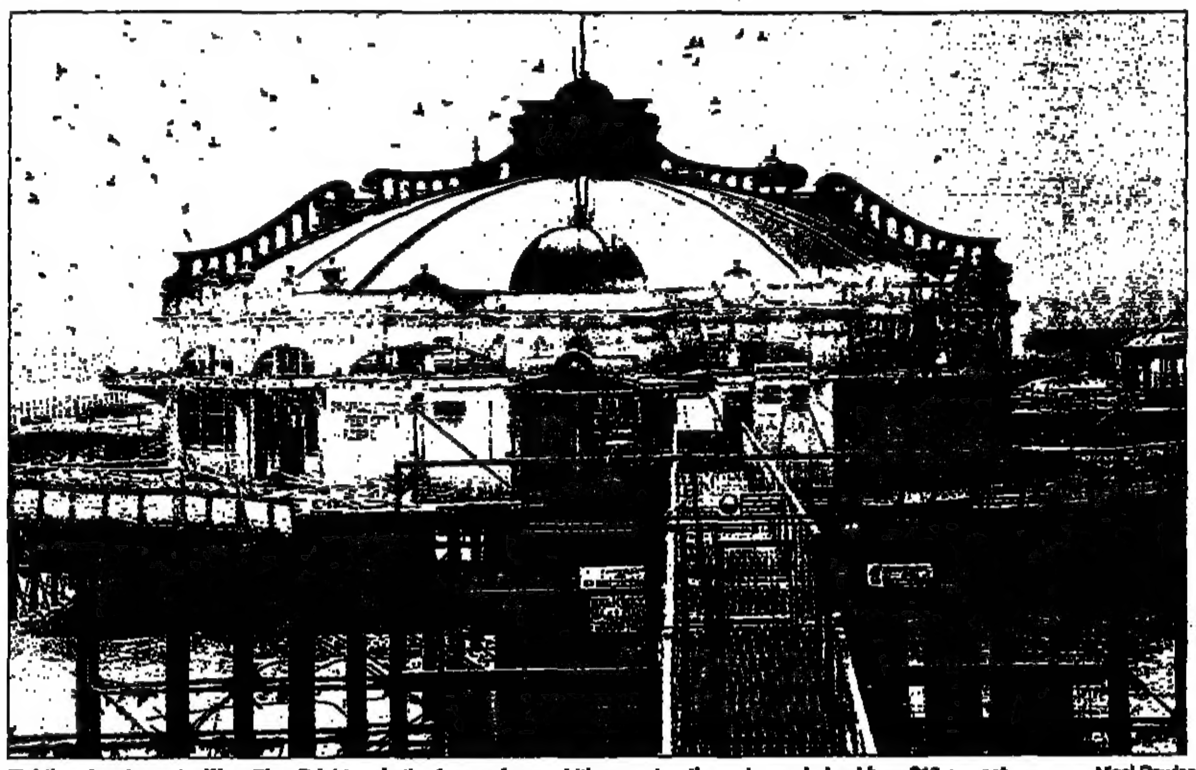
At least 10 of the 50 remaining seaside piers in the UK are in imminent danger of closure or destruction, say conservationists. Lack of funds or maintenance mean many others face an uncertain future, **Christopher Adams writes.**

"Many piers didn't move quickly enough with the times," said Anthony Wills of the National Piers Society. "People have got used to overseas travel and tend to treat British resorts as day trips."

One of the piers most at risk is the mid-19th century West Pier in Brighton, one of the biggest resorts on the south coast of England. Stretching shakily for more than 250m out to sea, this abandoned former rival to the town's successful and brazenly kitsch Palace pier has become a desolate hulk.

This year, the trust which owns the pier secured National Lottery support for an ambitious restoration scheme. But it is fighting an unequal battle against the elements. Water rolls around seaweed-clad iron pillars, visible through gaps in the rotten planking.

The £10.6m ($17.3m) grant will enable the West Pier Trust to begin work on a project with London & Regional Properties and restaurateur Oliver Peyton's Gruppo company, which it says will turn the pier into a leisure complex.



Fighting the elements: West Pier, Brighton, is the focus of an ambitious restoration scheme, helped by a $16m grant Nigel Bowles

Promoted women 'earn lower salaries than men'

By Andrew Balls in London

Women working full-time in the UK are more likely to win promotion than men but often find themselves at the bottom of the salary scale, says a survey for the Institute of Labour Research.

"While some women can get through the glass ceiling they remain stuck to the promotion wage floor," said Alison Booth, professor of economics at the University of Essex in south-east England and one of the authors of the Institute for Labour Research paper. "It is clear that promotions do not mitigate the general disadvantage that women face in the labour market."

The study shows that, on average, a woman working full-time earns 17 per cent less than a man.

Women's real wage growth in the first half of the 1990s was 11 per cent lower than that enjoyed by men.

"The effect of promotion on wage increases has exacerbated the already large gender gap in wages," the report says.

The conventional view of labour market discrimination is that women are less likely to be promoted than men. But data from the British Household Panel Survey (BHPS) indicate that between 1991 and 1995 women had a 12 per cent chance of being promoted in any year compared with a 9 per cent chance for men.

But a man promoted three times in the first half of the 1990s would have enjoyed a real wage increase of 32 per cent, the study shows.

A woman with the same individual and employment-related characteristics, and promoted in the same way, would have seen only a 7 per cent increase in pay.

"Men continue to gain from past promotions, moving up the pay scale, while women do not," the report says.

The study suggests that there is a tendency for employers to rate men more highly than women with the same productivity and in jobs of the same grade. This means the employer is more likely to match wage offers from other companies and to increase salaries faster to prevent male employees being tempted by such offers.

Men who had been promoted in the BHPS sample received wages 20 per cent higher than those who had not. Wages for promoted women were only 10 per cent higher.

● A bank worker claimed yesterday that a woman manager made him mop the floor of the branch as part of a campaign of sex discrimination against him. Andrew Gilbert, 23, said he was singled out by Kathryn Douse – at 22 the Midland Bank's youngest manager – because he was a man.

Mr Gilbert, who was dismissed by the bank after a period of probation at its branch in a supermarket in Manchester, in northern England, is claiming loss of earnings at an industrial tribunal.

Miss Douse denied that she had discriminated against Mr Gilbert, who was the only man on the staff at the time.

NEWS DIGEST

BARINGS COLLAPSE

Proposed settlement for bondholders faces delay

A proposed settlement that would have provided partial repayment for bondholders caught in the 1995 collapse of the Barings merchant bank has run into a second serious delay which could jeopardise the package. The settlement would produce payments of £84m ($138m) before expenses, on bonds with a face value of £190m. It was approved by Barings' creditors and holders of £100m of perpetual notes issued in 1994, but a third meeting – of holders of $150m in floating rate notes issued in 1986 – was adjourned. The meeting, once recovened, failed to reach agreement and was adjourned again until September 16. It is understood that vulture funds, which bought the notes at a discount, hope to win better terms and may have now been joined by other 1986 note holders. Parties to the deal are anxious that the opportunity of settling may be lost as the deal may expire before the end of the year if not agreed. **Jim Kelly, London**

EXPORTS OF FARM ANIMALS

Protesters gather at port

Animal welfare campaigners said yesterday they would mount a permanent demonstration against exports of live sheep, which are to resume between Dover, England, and Dunkirk, France, today. The English port was the scene of violent clashes three years ago, in which one demonstrator died, as thousands of campaigners tried to prevent truck-loads of calves and sheep leaving the UK. Some groups said yesterday they would do everything possible to stop the trade re-establishing itself.

ROYAL AUTOMOBILE CLUB

Cendant wins sale vote

Members of the Royal Automobile Club have voted overwhelmingly for selling the RAC's motoring services operations to Cendant, the US marketing group, for £450m ($742m). The sale means the 12,000 full members of the London club headquartered at the capital's Pall Mall will each receive payouts worth between £30,000 and £35,000. Of the 84 per cent of members who voted, 97.7 per cent gave their approval. The sale requires the approval of competition regulators, as Cendant owns Green Flag, another big UK motoring services group. But it is thought unlikely there will be any referral to the Monopolies and Mergers Commission because Cendant faces the entrenched rivalry of the 9.4m member Automobile Association and other sizeable groups such as Mondial Assistance. **John Griffiths, London**

See Cendant earnings in Companies & Finance

AGE DISCRIMINATION

Guidelines to be published

The government will publish a voluntary code of practice this autumn to combat ageism but confirmed it was not prepared to legislate against it. Andrew Smith, employment minister, said employers could not afford to discriminate because one in four workers would be aged 50 or more by the year 2006. "This government is determined to tackle the problem but cannot do so on its own," he said. "We have to work in partnership with business, employees and interested groups, as well as the public." The education and employment department yesterday published the results of informal consultation. It showed that age discrimination affected young and older people, reducing their chances of getting a job or promotion – especially for over 50-year-olds. **Andrew Bolger, London**

Clamour grows for rules on euro referendum

Opponents of the single currency fear Yes campaign will have unfair financial advantage, writes **Liam Halligan**

The £15m ($24.7m) campaign by Lord Hollick and other senior business executives backing Britain's entry into the single European currency will bring further protests about the lack of financial guidelines governing what is likely to be a highly contentious referendum.

The business group, to be launched in the next few months, will be headed by Lord Hollick, chairman of United News & Media and a supporter of the governing Labour party. The new organisation, which will have supporters in all main political parties, is expected to take over the lead role in the pro-euro campaign from the long-standing European Movement, which some senior Labour party figures consider too uncritically pro-EU.

"You're jumping the gun by several years," replied one government official when asked if there would be any campaign funding limits when the referendum on participation in the single currency, expected in 2001 or 2002, is contested via Britain's newspapers, billboards and airwaves.

But the opposition Conservative party, in conjunction with a collection of independent constitutional experts, has called for the creation of referendum rules. "Referendums must be conducted fairly, and there are presently no rules," says Liam Fox, Conservative constitutional affairs spokesman.

His call was echoed, from across the political spectrum, by Charter 88, the constitutional campaign group. "Referendum guidelines are crucial so the results are unequivocal," said a spokesman for Charter 88. "We need funding limits, with state funding being considered, especially where one side could get so much more money than another."

Part of the reason Conservatives, most of whom vehemently oppose Emu, are pushing for limits is that the pro-single currency camp is likely to be so much better funded than the No lobby.

Business for Sterling, the anti-Emu business group launched in June, says it is "unlikely" to win the financial contest. "We've reached £1m in donations, but because of European Commission money, and other government-funded propaganda, we'll have to rely on the strength of our arguments," said a spokesman.

Anti-Emu campaigners say the Yes campaign's financial firepower will partly reflect the backing of big business. "UK multinationals are giving the British Yes vote money to keep them on board with Labour and other pro-Emu governments on the continent," says one. "In contrast, many No supporters are small firms who cannot shell out on politics."

Certainly, the Federation of Small Businesses takes a staunch anti-Emu line. "We're against – 80 per cent of small businesses trade solely within the UK, and for them Emu represents nothing but costs," said an official.

Another fundraising problem for the No camp is the squabbling within its ranks. The anti-Emu lobby comprises about 30 splinter groups, most of them associated with the right wing of the Conservative party.

The penchant of many No groups to go beyond opposing Emu – with a large number wanting the UK to quit the European Union altogether – turns off most potential business backers, presumably on the grounds that an "anti-European" campaign against Emu is unlikely to be a success.

The No campaigners complain that corporate donations they do receive come from businessmen who are themselves politically active.

Lord McAlpine, the former Conservative party treasurer, who played a leading part in the successful campaign in the 1975 national referendum on membership of the European Community, but who backs the present campaign against Emu, says referendum funding limits are even more important than general (national) election campaign spending controls.

"General election results can be reversed after five years," he says. "But referendum results last forever."

Foreign secretary urges curb on Brussels

By George Parker, Political Correspondent

Robin Cook, the foreign secretary, has called for a range of measures to curb the power wielded by Brussels and to transfer responsibilities to European Union member states.

Mr Cook called for a new EU code in an interview with New Statesman magazine, setting out the responsibilities of EU institutions and those of individual nations. "It would be a working guide to Europe and to the nation state," he said.

Mr Cook also floated the idea of reducing the European Commission's power to impose laws directly on member states through directives. He argued that Brussels should instead set "standards" outlining broad areas for action by member states, rather than dictating the minutiae of the law.

"At the moment it is a matter of imposed legislation," he said. "Much better if we agree standards at European level, but recognise that sometimes member states come up with a technical way to meet these standards which are more appropriate for them."

Mr Cook believes the move towards greater "subsidiarity" – assigning decision-making to as local a level as possible – will be backed by European leaders such as Helmut Kohl, the German chancellor, and French President Jacques Chirac.

Foreign Office officials stressed that Mr Cook's ideas did not constitute government policy but were simply part of a "free thinking" exercise that was going on across Europe.

Mr Cook believes a code on subsidiarity would be useful in persuading sceptics that further moves towards integration – including the creation of a single currency – were not part of a plot to create an EU superstate.

He also proposes giving national parliaments more power to scrutinise the work of the EU.

Mr Cook's comments were welcomed by Alan Donnelly, a Labour member of the European parliament and leader of the European Parliamentary Labour party. "Change is needed to create a European Union that is closer to the people of Europe."

Michael Howard, the Conservative party's shadow foreign secretary, said Mr Cook's remarks were "yet another example of Labour saying one thing and doing another". "The best way of dealing with Europe's 'democratic deficit' is to protect the powers of national parliaments and governments, all of which are democratically elected. Yet what Labour have consistently done is to give this power away," he said.

BUSINESSES FOR SALE

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PROFILE MUHAMMAD YUNUS, GRAMEEN BANK

Great hopes from little loans grow

The fight against poverty is the driving force for a Bangladeshi banker, says John Authers

"Poverty," says Muhammad Yunus, "is something like a bonsai tree. You get only this little base to grow from. You are a stunted little thing. Maybe you could be a giant thing, but you never find out – that's poverty."

Few people have seen more of poverty at first hand, or done more to combat it. Mr Yunus has brought a startling brand of entrepreneurialism to his native Bangladesh, where it is flourishing. His Grameen Bank, started when he made loans worth $27 (£16) out of his own pocket to 40 people, now has more than $2bn in loans outstanding.

Grameen is now one of the world's largest "micro-lenders". Its loans still average barely more than $100, and go to help people set up small enterprises in rural Bangladeshi villages. The loans have no collateral, and carry a relatively high interest rate. They are made to people who would not be considered credit worthy by almost any western financial institution.

Yet Grameen loans have a repayment rate of 98 per cent – the kind of level that US banks can only dream about. The bank now has more than 12,000 employees, and more than 1,000 branches serving 37,000 villages.

Mr Yunus has become a powerful agent of social and technological change. Grameen has lent to more than 2.3m people, at least 90 per cent of whom are women. Most are also illiterate. Voter turn-out among the people it lends to is almost 100 per cent. It is steadily turning one of the world's poorest countries into a nation of entrepreneurs. "My concept is not just about the entrepreneurial poor. My starting point is that all human beings are entrepreneurs. Some get a chance to express it. Those who never had the chance probably believe they are not entrepreneurs. By creating access to credit, you give an opportunity to someone to find out what's inside of him or her."

Grameen is also helping to connect rural Bangladesh to the global communications network. One scheme involves renting out mobile phones to women in villages, who then loan them to other villagers for a profit. This scheme has turned Mr Yunus into Bangladesh's largest telecommunications provider.

Grameen is also now the country's largest internet service provider, having extended computer equipment and online links into villages in the same way.

'Credit should be accepted as a human right. It's the beginning of economic life'

At a summit in New York in June he attempted to persuade the most powerful Wall Street investment houses to find ways to invest in micro-credit. This would be on a business basis, although he did emphasise that banks should be looking for a "social-objective-driven" return, rather than pure commercial gain.

A summit last year had already set the goal of extending micro-credit to 100m households worldwide by 2005. Like many others in the industry, he does not believe this can be achieved without tapping western capital markets.

Mr Yunus is exploring ways to securitise his loans – a once unimaginable event – and float them on the international capital markets. Many US banks seemed impressed. Unconventional schemes to help underpin the balance sheets of micro-lenders were announced at the conference by both Bankers Trust and Citicorp. Both expect to make a return on investment, but a lower one than they would normally require for a business proposition.

And he has branched out in other ways. He also chose New York as the venue to announce that he was forming a joint venture with Monsanto, the life sciences company, to set up an agricultural research centre in Bangladesh. This will apply the latest technological advances to improving the country's agricultural system.

By placing the centre in Bangladesh, the two companies hope it will produce solutions that are relevant to a country with a subsistence culture. It will work on genetic engineering aimed at providing more resilient crops and will also provide recommendations on cultivation and other agricultural methods.

All of these developments stem from Mr Yunus's clear and sophisticated philosophy, which bears the marks of his previous career as an economics professor in Dhaka. "In that context you are teaching beautiful economic theories in your classroom. You have beautiful solutions but then you go out of your classroom and you see people dying."

His first venture into lending came in the wake of the floods that hit the country in 1974. The scenes of devastation, soon after Bangladesh had claimed its independence from Pakistan, created worldwide concern and inspired the famous Bangladesh concerts with George Harrison.

For Mr Yunus, making small loans out of his own pocket seemed the best way to help. Grameen has grown steadily since then, gaining the status of a bank in the process. Mr Yunus himself has not profited greatly, however, and he does not have a personal stake in the company, which is mutually held.

"Shares are held by the borrowers themselves. I'm not a shareholder. I'm just an employee."

While he has a strong enough grasp of business to impress the world's most powerful financiers, he is driven by an uncompromising determination to fight poverty in whatever form it appears.

"I would say it's economic democracy. When you deny access to credit because someone doesn't have collateral you are creating a situation of financial appetite. That's such a basic need of human beings. Credit should be accepted as a human right. It's the beginning of economic life.

"We get very concerned when one human being's rights are violated for one individual but when over a billion people are denied their human rights we get so used to it we think it's a matter of fact."

HEALTH ANTISENSE THERAPY

Magic bullet rebounds

Victoria Griffith on a treatment that has received a fresh vote of confidence

It was once so promising it was dubbed the "magic bullet". Antisense therapy, a pioneering medical technology, was heralded as offering cures without side-effects. But its development over the last decade has been dogged by disappointment, as compound after compound failed in the laboratory.

Yet late last month, the world's first drug using the technology was approved by a Food & Drug Administration (FDA) advisory committee.

The recommendation of Isis Pharmaceuticals' antisense treatment for an Aids-related eye disease was an important vote of confidence. "It was a landmark decision," said Dr Eric Wickstrom, a leading antisense researcher at Jefferson Medical College, Philadelphia. "Isis has shown that these drugs are, indeed, practical and effective."

While Isis' treatment has not yet received full market clearance, it is extremely rare for the FDA to refuse approval after an advisory committee has given a product its blessing.

In spite of the good news, most antisense drugs are a long way from market, and the technology remains controversial. Research is still largely in pre-clinical phases – that is, the compounds have not been tried on humans.

After being hailed as one of the most promising technologies in the field of biotechnology in the late 1980s, antisense fell out of favour earlier this decade. Gilead and Lynx, early pioneers in the field, have dropped the technology to concentrate on other techniques. One of the leading antisense companies, Hybridon, which has done some important research on antisense and Aids, is financially troubled.

Believers in antisense greeted last month's drug approval with understandable relief. Yet it is probably too soon to sound the victory bell.

Antisense has been called the "magic bullet" approach because it is designed to affect only the proteins that are directly involved in a disease. Proteins, secreted by cells, regulate bodily functions and are implicated in most illnesses.

When the DNA of a cell is faulty, its protein production goes awry, meaning either too little or too much of a certain substance is manufactured. In the case of diabetes, for instance, pancreatic cells lose their ability to make insulin.

Genetic therapy directly targets the DNA to resolve such defects. Antisense, proponents argue, is safer because it leaves the central DNA alone to concentrate on RNA messenger molecules, which relay information from the DNA to the rest of the cell. By avoiding the DNA, the danger of contaminating other cell functions may be reduced.

Antisense is a strand of a genetic code designed as a mirror image of the faulty RNA messenger. By overlaying the RNA, antisense interrupts communication between the nucleus and the rest of the cell. Because the cell never receives the false information, its protein production returns to normal. In theory, the treatment should produce no side effects, because the drug does not interfere with any other cell function. In reality, the technique is riddled with problems.

One of the challenges of antisense is to get the drug into the cells

One of the challenges of antisense is to get the drug into the cells. To bind with one among some 30,000 messenger RNAs in the cell, the gene sequence must be exact, and to gain that precision, the molecule must be relatively large. Yet the larger the molecule, the harder it is to penetrate the cell.

Stanley Crooke, chief executive of Isis says that by distilling the gene sequence down to only the essential items, the molecules used in antisense can be reduced to an acceptable size. Yet even if this can be accomplished, the drug runs the risk of being broken down in the body before it reaches the target cell. The body is extremely efficient at breaking down strands of RNA, which is why much of the research in antisense has centred on strengthening the treatment's "backbone" – by altering its chemistry slightly – to get it to last longer in the body.

The "second generation" of antisense backbones seems to hold together better than its predecessors. Yet even these molecules are eliminated from the body at alarming speed. In many laboratory tests, just 5 per cent of the drug survives long enough to reach its target, making dosing a nightmare. Isis circumvented this problem with its new treatment by applying the product directly to the eye. "But that kind of local application is not feasible for most illnesses," says Frank Tung, a researcher at the University of Pittsburgh.

In spite of the challenges, antisense continues to hold promise for deadly conditions such as cancer. Through traditional testing and elimination methods, it seems, scientists can eliminate many of the drugs' negative properties.

The Isis approval is not the only good news the technology has received this year. In February, researchers with Genta, the biotechnology company, published a paper in Nature magazine showing antisense treatment had dramatically reduced cancer tumours in mice.

Last week Jefferson Medical College in the US announced it had used antisense to stave off cancer in mice and Isis hopes to apply for clearance for a product for Crohn's disease, an inflammatory bowel condition next year.

It is too early to declare victory for antisense drugs but the technology may at last begin to fulfil some of its earlier promise.

DAVID BOWEN
WEB SITE INSPECTION

Expectation melts

Häagen-Dazs fails to create a brand-building site that is useful

Häagen-Dazs is wonderful stuff. In addition to a splendidly silly name, it has taught many people what ice cream is supposed to taste like. And, through its advertising, it has brought food and eroticism closer than Freud could ever have thought possible.

But what, I wondered, could it do on the web? Brand-building sites are notoriously tricky because there has to be some reason for people to go to what is, after all, just one advertisement among thousands. Unfortunately Häagen-Dazs does not seem to have asked itself this question. Here we have a site that is more like candy floss than ice cream: it looks substantial, it is quite pretty, but there is almost nothing to it.

The soft focus picture of a Häagen-Dazs tub on the home page raises hopes of spoof erotica to follow. The accompanying copy is surely a spoof: "When you take a breath ... before the first kiss, capture temptation ... in a touch stir passion ... with a whispered promise."

As I read on, I realised that this was not spoof bad copy, this was sincere bad copy. So bad indeed that I enjoyed the site much as I would a truly terrible film. Here's a spoonful: "It's nice to meet someone who doesn't have issues with intimacy."

The site has two vaguely useful features. One is a locator button to find the nearest Häagen-Dazs café. The other is a selection of recipes. You get to these by joining the Perfect Rewards Club, which requires giving information about your ice cream eating habits. If I am going to give up personal data to a company I want rather more than Häagen-Dazs offers in return. The form also has the all-too-common irritation of refusing to acknowledge non-US addresses, even though the site's information is international. Strange, given that the brand's owner, Diageo, is British.

Navigation is fine as long as you know what buttons labelled "Inspirations", "Elements", "Settings" and "Experiences" are supposed to signify. It looks quite pretty too and was certainly not cheap to produce. This site is a useful guide to wasting money on the web. Other brand-builders should examine it carefully and do otherwise.

www.haagen-dazs.com
Overall *
Design ***
Navigation ****

The concept of a web site for a film is faintly bizarre – by its nature it cannot match the experience of the film, the impact of a poster or the utility of a review. So what does the site for Dr Dolittle bring to the online party?

The answer is a surprising amount. It gives you the chance to see an 80-second trailer for the film, if you are prepared to wait 25 minutes while it downloads. It also lets you listen to clips of the soundtrack and order the album online, download screensavers and send electronic postcards to your chums. There is a fair amount of information about the plot. But in spite of the Hollywood slickness this site is little more than an elaborate commercial.

www.drdolittle.com
Overall ***
Design ***
Navigation ***

Matinee, a software company from Reading, England, says its site is "the future of the web".

It's certainly different. The site is more like a graphical video than a normal web site: electronic music thumps away behind a screen constantly full of movement. Even the delay in loading various elements is turned into a virtue by announcing their arrival with explosions and other aural shocks. Have a look and see what you think.

www.matinee.co.uk
Overall ****
Design *****
Navigation ***

David Bowen is editor of Net Profit newsletter (www.net-profit.co.uk; e-mail info@net-profit.co.uk).

OPERA SANTA FE FESTIVAL

The mission's accomplished; it's time to let go

Andrew Clark wonders if founder and director John Crosby can bear to hand over his baby

You reach the Santa Fe Opera by driving six miles out of town on the road to Los Alamos. Until you actually see the theatre, you can have little idea how unlikely is its setting. Built into the side of a hill, with panoramic views of the Sangre de Cristo mountains, it shimmers like a mirage in the sun-baked desert. You leave the highway and drive up a winding path to a small plateau, and there it is: brown adobe walls, white roof with gleaming masts, open terraces, all curves and clean lines.

Close-up, you feel as if the whole construction is suspended beneath a giant glider. Inside, it has the atmosphere of a Greek amphitheatre – except that, for the first time in its 42-year history, the Santa Fe Opera is fully covered. The auditorium is completely new, but the shape and style of its predecessor has been respected. The wind still breezes through open sides, the sunset remains visible behind the stage, and the backstage area is much as before. But at last the theatre is weatherproof. The seats are comfortable, the sight-lines good, and the acoustic is kind to voices.

John Crosby, the company's founder and 72-year-old general director, recalls opening nights in the early years when audiences would turn up in black tie, sit on wooden benches and get soaked by the rain. "Now people have all the creature comforts they need," he observes wryly, "but they don't get dressed up any more."

This is the second re-build Crosby has overseen, and each time the numbers have swelled. From 480 in 1957, capacity rose to 1,889 in 1968. The latest transformation has yielded 237 more seats, 37 more toilets, special elevators and a purpose-built gift shop. In the beginning, the audience consisted of locals, art lovers and the well-to-do. Now 70 per cent are holiday-

John Crosby: a pioneer who denies he had a vision

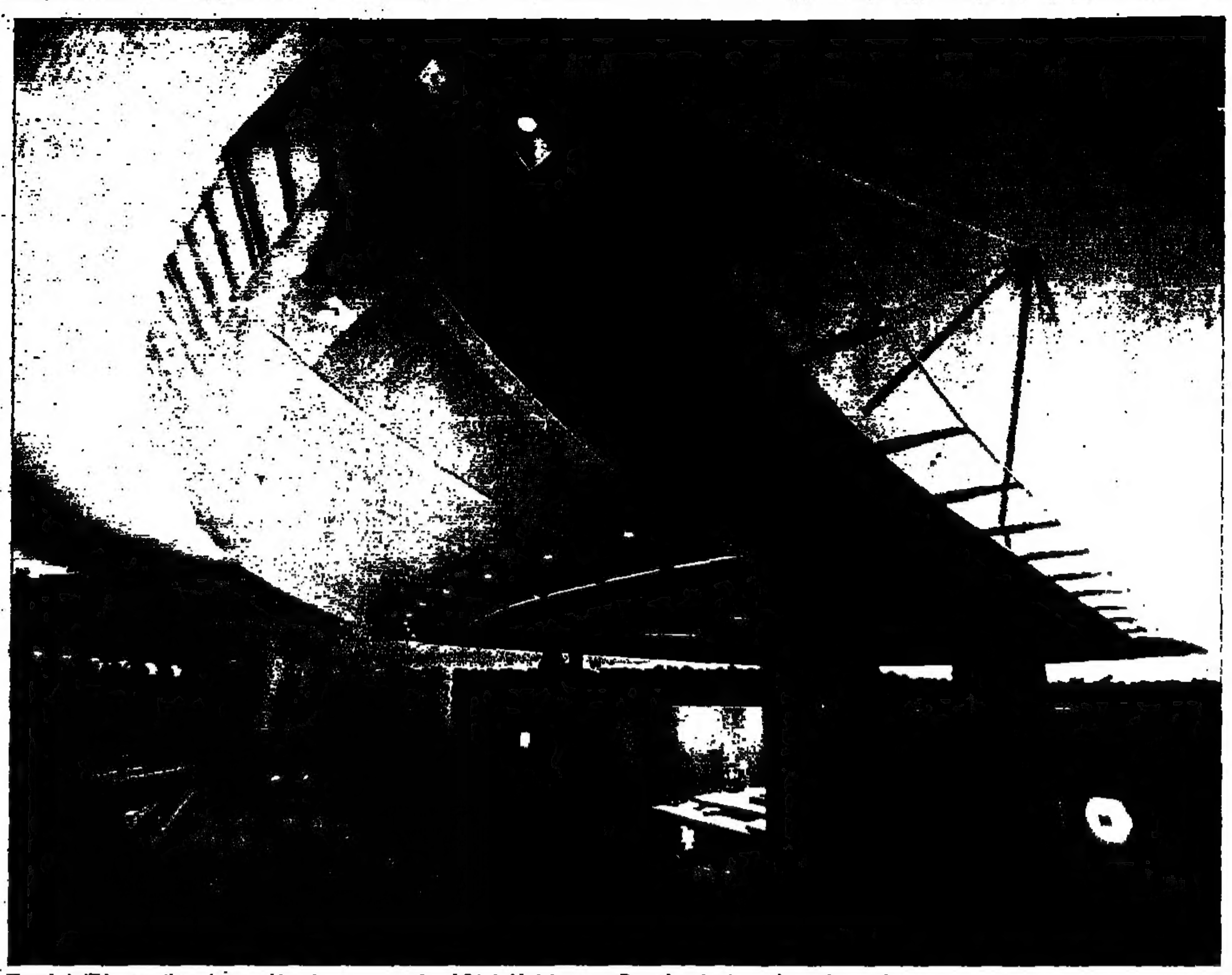
makers from outside New Mexico. The only constant factors have been Crosby himself and his artistic mission: a commitment to the rare and the new, and an apprentice programme aimed at giving talented young people a toehold in the profession.

To balance its books over an eight-week season, Santa Fe needs two box-office draws – this year, a John Copley production of *Madama Butterfly*, and Jonathan Miller's *Magic Flute*. That leaves room for two less frequently performed pieces: Berlioz's *Beatrice and Benedict* was this summer's smash hit, making up for a weak *Salome*. And there's always a premiere, even if it only gets three performances. Last year it was a new opera by Peter Lieberson; this year, the first English-language performances of Ingvar Lidholm's *A Dream Play* (on which I will report separately); in 2000, the US premiere of Henze's *Venus and Adonis*.

Santa Fe cultivates an adventurous image: this is, after all, where Stravinsky spent several summers in the festival's early years; where Hindemith conducted *Neues vom Tage* in 1961; where operas by Berio, Penderecki and Judith Weir were first heard by American audiences.

The problem now is that the company has outgrown Crosby's artistic capabilities. A lacklustre conductor who seems to have lost the energy to motivate a community of artists, he has announced his retirement after the 2000 season; his anointed successor is Richard Gaddes, a 54-year-old Englishman who made his name at Opera Theatre of Saint Louis before becoming Crosby's assistant. Given Crosby's meticulous control over policy and administration, the transfer of power presents the company with its biggest challenge since the 1967 fire. Santa Fe Opera is Crosby's baby. Will he let go?

It's a sensitive issue. Crosby will be hovering in the background after he leaves, and expects to be invited back to conduct. Gaddes declines to be drawn on future plans in case Crosby takes it as criticism. But a change in leadership is overdue. Dour, reclusive and plagued by insecurities, Crosby is a man of paradoxes – a pioneer who denies he had a vision for the company's growth, a musician who seems happier supervising the minutiae of buildings and budgets. Those who know him say he rules by fear, barely acknowledging anyone beyond a coterie of male assistants.



The wind still breezes through open sides, the sunset remains visible behind the stage. But at last the theatre is weatherproof

Despite the company's burgeoning size, with a $10m turnover, Crosby continues to run it like a family estate. He has a lawyer's mind and a businessman's flair for cost control: how else could the $19m re-build, financed almost entirely by private donors, have been completed on budget and within the stipulated nine months? Crosby's redeeming trait is his love of the art form, without which the company would not exist.

If it hadn't been for the fluke of fate that Crosby's parents owned land there, Santa Fe would probably still be a preserve of painters, native Indians and rich, ageing Americans. But fertilised by Crosby's personal wealth and artistic ambitions, the seed he planted in 1947 grew, and became the engine of a tourist industry. Not everyone who visits Santa Fe in July and August does so because of the opera, but without it, the town would not be the holiday mecca it is today.

Crosby deserves credit for planning his departure while both he and the company are in good health. Gaddes is likely to appoint an executive director to oversee day-to-day administration so that he can devote himself to fundraising and artistic planning. There may be fewer showcase premieres, and more exposure to repertoire hitherto under-represented in Santa Fe, such as Handel and Britten. Further ahead, some expansion of the storage and dressing-room areas is likely. But the formula which keeps artists coming back year after year – extended rehearsal periods and a close focus on developing singers' repertoire – will remain sacrosanct. Add to that a summer camp atmosphere, and you begin to understand why this oasis of western culture continues to thrive 7,000ft above sea level in the New Mexican heat.

For the time being, Crosby has his hands full – too full to bother about his reputation. He quotes John Pritchard's dictum that "I'm too old, too tired and too fat to worry about it". Asked about his impending retirement, he admits he has much to learn. He cites a headmaster he knew in his youth who "made his school the best in the country and graciously retired before he had to, because the board had identified a suitable successor. I hope I'll be able to live up to that example."

POP LUTHER VANDROSS' 'I KNOW'

The smoothie's back in town

After a few false starts, here comes the real thing: there can be few surer signs of an imminent 1980s nostalgia boom than the release of a new Luther Vandross album.

Vandross provided the preening decade's soundtrack with some of its most eroticised moments. While all around him were anxious to look as ridiculous (pirate outfits) or miserable (black overcoats) as possible, Vandross smooched his way into lounges everywhere with his honeyed come-ons and effortless falsetto leaps.

It was, to be sure, an ersatz eroticism; one only has to listen to Marvin Gaye to hear the genuine, less than wholesome article. But Vandross's creamy crooning slotted in nicely with the shallow times.

What does he say to us today? *I Know*, his first album for EMI, is trailed as being the first over which he has exercised "true creative control", but this frankly sounds like mildly bitchy record company-speak. What you get is largely what you expect – well-played, polished, nicely settled into an uncontroversial groove.

Much of the credit for this carefully-crafted sound goes to Marcus Miller, who has writing, production and bass-playing credits

Vandross and rap go together like custard and broccoli

on various parts of the album. There is something endearingly old-fashioned about Miller's playing in an age in which rhythm sections have become obsessively mechanised.

Add the odd virtuoso moment from Bob James (an impressively laid back Fender Rhodes solo on "I'm Only Human") and Stevie Wonder (harmonica on the title track), and you have a rather refreshing, warm sound, perfect for those torpid summer evenings.

But that is not enough for Vandross: he wants to show that he has moved, ever so elegantly, with the times. Thus the album's closer, a Rodney Jerkins remix of the energetic "Nights in Harlem" featuring a rap from Gangstarr's Guru. Vandross and rap go together like custard and broccoli. It is a pointless exercise, a tokenistic response to the perceived demands of the market.

But at least it can be treated as a self-indulgent throwaway. Most of the album will delight his sizeable following, from the opening ballads "Keeping My Faith In You" and "Isn't There Someone?" to the soft-focus funk of "Religion".

There is only one false note (not, needless to say, literally speaking), when Vandross tackles Albert Hammond and Carole Bayer Sager's "When I Need You", an over-familiar and hackneyed song which receives a crude, lumbering treatment. Vandross can, and generally does, do better than that. Guitar bands beware, the smoothie is back in town.

Peter Aspden

BRECON JAZZ FESTIVAL VAN MORRISON, PETRUCCIANI, MARSALIS . . .

Impro, rhythm and blues

Nearly one hundred gigs, spread around meadows, marquees and a market hall make Brecon Jazz a unique event in all Europe. The Welsh town is simply the most convivial place to experience live jazz music – from swinging mainstream to artful abstraction by way of blues and gospel.

Van Morrison passed through all those areas in a rumbustious festival opener on Friday night. Belfast's spiritualised blues-shouter mugged and chortled through classics "Tupelo Honey", "Crazy Love" and even "Moondance", before accepting requests for more of the same. The curmudgeonly one's unpredictability always give his shows an extra charge. This night it was the Man's demoniacal good humour that put both band and audience on edge, lending the performance an electric and deliciously dangerous atmosphere.

Where the Market Hall's murky acoustics were simply overpowered by Morrison's bellowed angst, the sound quality presented more of a problem for the French pianist Michel Petrucciani, backed by drummer Steve Gadd and six string bassist Anthony Jackson. Petrucciani makes light of his physical limitations – he is only three feet tall – and leans into the keyboard with full two-handed percussive force. At times, and through no fault of the musicians, bass notes from each protagonist seemed to weld together. All was clearer in the Latin tinged mid-tempo numbers, the rhythm section carefully bisecting Petrucciani's note-packed lines.

Not only does Petrucciani have a huge store of improvising material and an incendiary right hand delivery, the driving left hand joins his ideas into a fast moving train of purposeful momentum. Original compositions have witty adornments which compare with Oscar Peterson, but he comes into his own when interpreting Ellington. On Saturday, an "A Train" variation was brought shunting and squealing from its siding and pulled into an unstoppable, fire-breathing express.

Saxophonist Branford Marsalis loped onto the same stage two hours later to set free an uninterrupted stream of improvisation which lasted nearly an hour and a half. Backed by the dream rhythm team of pianist Kenny Kirkland, drummer Jeff "Tain" Watts and bassist Eric Reevis, the eldest of the Marsalis siblings linked frantic bop to calypso by way of shimmering ballads and furry-toned blues. Lesser players would lose their audience, but the empathy between the Marsalis group members is compelling.

One of the hottest tickets in town was for American vocalist Stacey Kent

One of the hottest tickets in town was for vocalist Stacey Kent and her band at Christ College. The young New Yorker, who started singing just five years ago after settling in London, is an articulate interpreter of the great American songbook. She communicates the bitter-sweet essence of intelligent popular songs in brightly swinging but intimate form. On Sunday afternoon, pianist David Newton and breathy tenorist Jim Tomlinson who together embody taste and restraint, provided the perfect setting for classics such as "East Of The Sun" and "In The Still Of The Night".

At the Theatr Brycheiniog, tenor titan Joe Lovano demonstrated how to blow new life into the songbook – by turning the tunes inside out. Lovano, who rivals Sonny Rollins for firepower coupled with vocabulary, has a similarly idiosyncratic repertoire, drawing inspiration from such disparate sources as Sinatra and Monk. The quartet features another big-hearted player, pianist Kenny Werner, whose fluid, quicksilver solo parts were a carefully drawn counterpoint to the leader's full-blooded runs. That Lovano and his group could play two consecutive shows at Brecon says as much about his stamina as it does his popularity.

The 32 headline concerts are only a part of Brecon Jazz; the fringe often provides the unexpected gems. So if there is a problem with the festival, it is how to be in several places at one time.

Garry Booth

INTERNATIONAL

Arts Guide

EDINBURGH

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OPERA
Don Carlos: by Verdi. The Royal Opera in Luc Bondy's production, with sets by Gilles Aillaud and costumes by Moidele Bickel. The conductor is Bernard Haitink and the cast includes Thomas Hampson; Edinburgh Festival Theatre; Aug 17

THEATRE
● Life is a Dream: by Calderón, in a translation by John Clifford. Royal Lyceum Theatre Company production directed and designed by Calixto Bieito; Royal Lyceum Theatre; Aug 17, 18, 19
● The Robbers: by Schiller, in a translation by Robert David MacDonald. Production by the Citizens Theatre Company, Glasgow, directed by Philip Prowse; King's Theatre; Aug 17, 18, 19

GLIMMERGLASS

OPERA
Alice Busch Opera Theater, Cooperstown
Tel: 1-607-547 2255
● Falstaff: by Verdi. New production directed by Leon Major with sets and costumes by John Conklin. Conducted by George Manahan. Cast includes Kevin Glavin, Stephen Powell and Amy Burton; Aug 14, 17
● Partenope: by Handel. New production directed by Francisco Negrin, in his Glimmerglass debut, and conducted by Harry Bicket. Cast includes David Daniels and Lisa Saffer in the title role; Aug 16
● The Mother of Us All: by Virgil Thomson. Conducted by Stewart Robertson in a new staging by Christopher Alden, with sets by Allen Moyer; Aug 15, 18

GLYNDEBOURNE

OPERA
Glyndebourne Festival Opera
Tel: 44-1273-815 000
● Capriccio: by R. Strauss. Revival conducted by Andrew Davis and directed by John Cox. The Countess is sung by Felicity Lott. With the London Philharmonic Orchestra; Aug 14, 17
● Le Comte Ory: by Rossini. Revival conducted by Yves Abel and directed by Jérôme Savary, with the London Philharmonic Orchestra; Aug 15, 18
● Simon Boccanegra: by Verdi. New production conducted by Mark Elder in a staging by Peter Hall. With the London Philharmonic Orchestra. The title role is sung by Elena Prokina; Aug 16, 19

LONDON

CONCERTS
BBC Proms, Royal Albert Hall
Tel: 44-171-589 8212
● Choral Day: afternoon events include the New College Choir conducted by Edward Higginbottom at 5.30, and the Huddersfield Choral Society conducted by Martyn Brabbins at 6.15; Aug 15
● Carmina Burana: by Orff. Terry Edwards conducts an assembled choir of 1,000 voices as the finale of the Choral Day; Aug 15
● City of Birmingham Symphony Orchestra and Chorus: conducted by Simon Rattle in works by Birtwistle and Beethoven. With soloists including soprano Rosa Mannion, tenor Philip Langridge and bass Willard White; Aug 14
● City of London Sinfonia: conducted by Richard Hickox in works by Mozart, Diana Burrell, Tavener and Beethoven; Aug 16
● The Academy of Ancient Music: conducted by Christopher Hogwood in works by Handel, Bach and Vivaldi. With the New College Choir and soloists including soprano Emma Kirkby and tenor Mark Padmore; Aug 17

EXHIBITIONS
Barbican Art Gallery
Tel: 44-171-638 8891
The Warhol Look/Glamour Style Fashion: includes screen prints, films, reconstructed window displays, photographs, illustrations and clothing; to Aug 16

Royal Academy of Arts
Tel: 44-171-300 8000
Summer Exhibition: held every year since the Academy's foundation in 1768, the world's largest open exhibition displays work by established painters and sculptors alongside that of younger and less well known artists; to Aug 16

NEW YORK

CONCERTS
Avery Fisher Hall, Lincoln Center
Tel: 1-212-875 5030
www.lincolncenter.org
● Mostly Mozart Festival Orchestra: conducted by Carlos Kalmar in works by Mozart, Rossini and Schubert. With piano soloist Alexei Lubimov and clarinet soloist Richard Stoltzman; Aug 14, 15
● Mostly Mozart Festival Orchestra: conducted by Gerard Schwarz in works by Beethoven, Mozart and Mendelssohn; Aug 18, 19

SALZBURG

OPERA
Salzburg Festival
Tel: 43-662-844501
● Aufstieg und Fall der Stadt Mahagonny: by Weill. Conducted by Dennis Russell Davies in a staging by Peter Zadek, with sets by Richard Peduzzi. Cast includes Dame Gwyneth Jones and Wilbur Pauley. With the Vienna Radio Symphony Orchestra; Grosses Festspielhaus; Aug 17
● Don Carlo: by Verdi. New staging by Herbert Wernicke, with the Vienna Philharmonic and Opera conducted by Lorin Maazel. Cast includes Samuel Ramey; Grosses Festspielhaus; Aug 16, 18
● Le Nozze de Figaro: by Mozart. Conducted by Sir Charles Mackerras in a revival of Luc Bondy's staging, directed by Joël Lauwers. With the Vienna Philharmonic and Opera. Cast includes Dwayne Croft and Barbara Frittoli; Kleines Festspielhaus; Aug 15, 17
● Saint François d'Assise: by Messiaen. Conducted by Kent Nagano in a staging by Peter Sellars. With the Hallé Orchestra and Schoenberg Choir, and a cast including José van Dam and Dawn Upshaw; Felsenreitschule; Aug 16, 19

THEATRE
Salzburg Festival
Tel: 43-662-844501
● Soon: by Hal Hartley, with music by Hal Hartley and Jim Coleman, and sets and costumes by Steve Rosenzweig. Co-production with deSingel, Antwerp; Perner Insel; Aug 14
● Danton's Death: by Büchner. New, co-production with the Berliner Ensemble, directed and designed by Robert Wilson, with costumes by Frida Parmeggiani; Landestheater; Aug 15, 17, 18
● Troilus and Cressida: by Shakespeare. New, co-production with Theater Basel, directed by Stefan Bachmann; Lehrbauhof; Aug 14, 15, 16, 18, 19

SCHLESWIG-HOLSTEIN

CONCERTS
Schleswig-Holstein Music Festival
Tel: 49-431-567 080
● Anne-Sophie Mutter: recital of Beethoven violin sonatas; Kiel, Schloss (Aug 14), Flensburg, Deutsches Haus (Aug 15) and Lübeck, Musik- und Kongresshalle (Aug 16)
● Philharmonie der Nationen: conducted by Justus Frantz in works by Brahms; Lüneburg, Marktplatz, Open Air; Aug 14
● St. Petersburg Philharmonic Orchestra: conducted by Yuri Temirkanov in works by Rimsky-Korssakoff, Prokofiev and Tchaikovsky. With violin soloist Dmitry Sitkovetsky; Kiel, Schloss; Aug 19

TOKYO

CONCERT
Suntory Hall
Tel: 81-3-3584 9999
● Andreas Rothkopf: recital by the organist of works by Bach; Aug 14
● Tokyo Philharmonic Orchestra: concert performance of works by Puccini, Verdi and Bizet, conducted by Yoshinori Kikuchi; Aug 18
● Yomiuri Nippon Symphony Orchestra: conducted by Yuzo Toyama in works by Schubert and Beethoven; Aug 17

EXHIBITION
Odakyu Museum
Tel: 81-3-3342 1111
Aubrey Beardsley: touring display of more than 200 drawings, prints, posters and books created during the brief period of the artist's fame; to Aug 16

VERONA

OPERA
Arena di Verona
Tel: 39-045-800 5151
www.arena.it
Un Ballo in Maschera: by Verdi. New production by Giuliano Montaldo with sets by Luciano Ricceri. Conducted by Daniel Oren; Aug 15

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● **CNN International**
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06.30: *Moneyline with Lou Dobbs*
13.30: *Business Asia*
19.30: *World Business Today*
22.00: *World Business Today Update*

● **Business/Market Reports:**
05:07; 06:07; 07:07; 08:20; 09:20; 10:20; 11:20; 11:32; 12:20; 13:20; 14:20.

At 08:20 Tanya Beckett of FTTV reports live from LIFFE as the London market opens.

Capital market pariahs

Asian countries want to tap the international bond markets. But, say Simon Davies and Jeremy Grant, they are being asked to pay basket-case premiums

For international banks, one of the few benefits to emerge from the Asian crisis is the ravenous appetite for capital from once-frugal south-east Asian countries. But setting terms that suit both lenders and borrowers is not easy.

High savings rates and balanced budgets in the region left little room for a debt market. On the contrary, Asian governments lent to the west west. Now the tide has turned. The collapse of banking systems and the blurring of lines between public and private sector borrowing has hugely increased government demand for international capital.

This week, the Philippines issued a mandate to Goldman Sachs to launch a $500m issue. Seoul, Bangkok, Kuala Lumpur and Beijing have issued mandates to borrow a total of more than $5bn. But lenders are wary. If these issuers had come to the market just 18 months ago, they would have been greeted with open arms. Today, they are all but pariahs.

Before the financial crisis, Asian borrowers were paying an average coupon of 1.5 percentage points over the yield on the US Treasury long bond. At current market prices they would have to pay closer to 5.5 percentage points over. The risk premium has tripled.

Neither are markets distinguishing between countries. Korea, Malaysia and Thailand are trading within a whisker of each other despite a wide range of credit ratings. Last month, Malaysia decided it was being asked to pay too much and delayed a $2bn eurobond issue. That casts doubt on borrowing plans by Thailand and China.

For the moment, Asian countries can afford to delay since many have clinched rescue packages from the International Monetary Fund. But sooner or later they will need to borrow to service their debts, to recapitalise ailing banks, and to finance fiscal deficits.

"The largest source of financing so far has been from the multilaterals. But there has to be a several-pronged approach to financing," says Amer Bisat, emerging market analyst at Salomon Smith Barney. "A significant share of that will have to come from international capital markets."

Some traditional routes may be blocked. Syndicated loans, for instance, may not be an option. "The banks that have lent to the region are under substantial pressure because of their existing non-performing loans," says Carlos Cordeiro, managing director of debt capital markets at Goldman Sachs in Hong Kong. "I think the bond markets provide as attractive an opportunity as anything else out there."

There may be a way out for would-be borrowers: securitisation. When Chrysler, the US carmaker, had a junk-bond rating in the early 1990s, it raised relatively low-cost funds through issuing bonds collateralised by the cashflows from assets such as motor loans.

The conditions look right for Asian securitisation, enabling governments and companies to issue structured bonds with risk profiles more to investors' tastes. But even here there are problems. "In many countries, the legal and regulatory structure has not sufficiently developed to the point where securitisation is a full and viable option," says Michael Dee, managing director of debt capital markets at Morgan Stanley Dean Witter in Hong Kong.

Eventually, Asian governments will have to return to the bond markets. To do that they will have to come up with more transparent information about debt profile and about plans for future bond issues. Just as important, they will need to convince markets they are undertaking serious economic and financial reform.

Governments that can come up with a credible story should be able to borrow at more attractive rates by distinguishing themselves from the pack. But few, if any, Asian governments have persuaded the markets they have taken the necessary steps.

"Issuers and their governments need to be creative and proactive," says Mr Dee. "The medicine is in their drawer but it hurts and is being avoided . . .Pricing could be immediately improved through implementation of tough market-based policies."

There should be a far easier solution. Asia is blessed with an enormous captive market of savings which could be channelled into government bond markets. But regional governments never got round to putting in place the necessary infrastructure for a well-functioning bond market.

As Donald Tsang, Hong Kong's financial secretary, said recently: "It is one of the ironies of history that our failure to establish a strong and robust Asian bond market is among the reasons we are facing financial crisis today."

But setting up the necessary infrastructure will take many years. Far from being spurred on by crisis, the process may well be set back. Eventually, though, regional governments will have to develop sovereign yield curves against which corporate debt can be priced. They will also need to establish an appropriate regulatory and legal framework and build market infrastructure, such as clearing and settlement systems.

If they achieve all that, they will have done much to soften the next crisis. But it will come too late to ease the pain of this one.

Philip Stephens is on holiday

LETTERS TO THE EDITOR

Soros case neglects microeconomic origins of Russia's predicament

From Mr David Flanagan.

Sir, The case made by George Soros regarding a Russian currency board (Letters: "A G7-backed $50bn currency board is the only way for Russia to end its crisis", August 13) rested on many interesting macroeconomic observations.

However, far from having solely macroeconomic origins, much of Russia's current predicament may be traced to microeconomic fundamentals. Therefore, medium- and long-term solutions are likely to be microeconomic in nature.

The fundamental problem facing Russia's budgetary position is a revenue item, namely taxation receipts, most significantly from the corporate sector. Shoring up public finances in the face of such a shortfall through complex financial engineering is, by any reckoning, a stop-gap measure only.

Russia's corporate tax and law systems must be strengthened if overseas investors' confidence in Russia's transition programme is to be restored.

Concerning Russia's savings structure, a stable interest rate regime and confidence in corporate regulation will encourage domestic saving. A currency board and a fixed rouble do not easily imply interest rate stability.

Also, who would sit on such a board? If it comprised overseas figures, its decisions may be seen as diktats from the international community. If made up of domestic figures, its independence from political influence, given forthcoming elections, may be doubtful.

David Flanagan,
Ground Floor Flat,
71 Netherwood Road,
London W14 0BP, UK

Conflicts ECB will confront

From Mr Colin Richardson.

Sir, There has been much criticism of the Bank of England's decisions on interest rates.

Indeed, one sympathises with its difficulty in arriving at decisions which are appropriate to the varying needs of different sectors of the UK economy, workforce and regions.

There is a distinct analogy with the problems facing the future European Central Bank. The present UK situation is but a microcosm of the difficulties which the ECB will encounter in finding any reasonable balance between an ever wider diversity of conflicting interests within the European Community.

The strong possibility of failure to achieve that reasonable balance could cause strong dissatisfaction across national boundaries, with inevitable consequences. Those who advocate entry into the single currency, in the foreseeable future, would do well to consider the dangers, in the light of the first hand experience which is being seen in the UK at the present time.

Colin Richardson,
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Crawley End,
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Royston,
Herts SG8 8QN, UK

Not comparing like with like on pay

From Mr Philip Alexander.

Sir, The football field is more level than the boardroom. Footballers and directors are on the receiving end of high pay. Curious that Ruth Lea, of the Institute of Directors (Letters, August 11), both dissociates herself from the open market which, supporting the footballers, supplies their pay; and is an apologist for the recipients who pay themselves behind the boardroom door.

Philip Alexander,
35 Matilda Street,
London N1, UK

From Professor J.F. Lamb.

Sir, It is no doubt part of the job description of Ruth Lea to defend the indefensible but she should at least compare like with like. The highly paid footballers (and other sports-people) differ from the senior directors who have recently been given huge pay rises in at least the following respects:

- Their competence is tested regularly and if found wanting they are no longer highly paid; directors can go on - under-performing for years with no penalty;
- Sportsmen get no large share options or pension packages and when they retire get no large severance packages; how different from directors!
- Sportsmen have a short active life; some directors seem to go on into senility;
- It is arguable that success on the playing field has a larger effect on the morale of a country than the economy generally; viz. The French World Cup effect.

Football shows the capitalist market working better than most other bits of the market system; perhaps the Institute of Directors could find a useful role in trying to get business to emulate it.

J.F. Lamb,
Ex Gas Greed Campaign,
23 Millbank,
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A dangerous generalisation about crime scene in Italy

From Mr Sergio Scarantino.

Sir, On reading in Paul Betts' article "Italy endures a renaissance of crime" (August 10) that the villa he rented in Varese was burgled during his family's holidays one cannot but sympathise with the frustration and anger of the victim of a very unpleasant episode. However the quick inference that Italy is enduring a "renaissance of crime" belongs to the realm of summer fiction rather than fact.

Generalisations are dangerous and depicting Italy as a place where one is either robbed or robs for a living is not only gratuitously insulting but does not serve the reputation for balance and accuracy a newspaper like the FT enjoys worldwide.

Anger and frustration are not the best mentors when you set pen on paper. At least this is what we suggest to our fellow countrymen when they call after being mugged in the UK. Perhaps a quick glance at the statistics would help to get the records straight. You may like to take a look at the page on crime in the Economist Pocket World in Figures (edition 1998) where (surprisingly!) the UK outperforms Italy in the rate of thefts and serious assaults.

Sergio Scarantino,
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L'Ecosse Libre

Nationalism is turning Scotland into Britain's Quebec, says Andrew Gowers

Three French words sum up the growing concern in parts of Scotland's business community as next May's elections for the new Scottish parliament draw near.

What, I asked the chief executive of a leading company in Edinburgh this week, most worries business about the current state of Scottish politics. His reply, uttered through clenched teeth was: "Le Québec Libre".

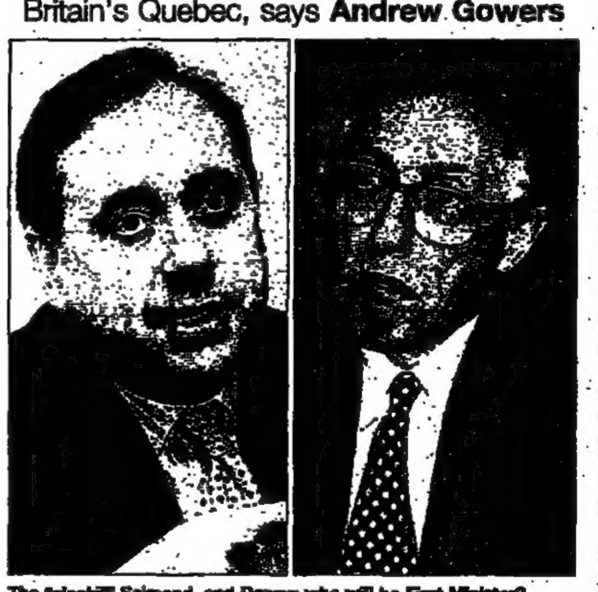
You can see what he means. The Scottish Nationalists, with their pledge of a referendum on independence, are on a roll, repeatedly beating the Labour party in opinion surveys.

Could their canny leader, Alex Salmond, beat Labour's Donald Dewar to become the country's first "first minister"? More important, is Scotland becoming Britain's Quebec – perpetually at odds with the rest of the state, constantly chafing at its link with the centre, fomenting political instability and economic uncertainty?

If so, more than the business community should be worried. Victory for the Nationalists next year would pose a grave and immediate challenge to Tony Blair's government. But even a strong Nationalist showing in the elections, with Labour emerging as the largest party, would seriously complicate the task of governing Scotland – and by extension the rest of the UK.

Contemplate for a second what life could be like with such a parliament. Few Scots, after all, believe the SNP will be anything less than a powerful challenger next May.

Scotland's devolution settlement, strongly endorsed by referendum in the wake of Labour's general election victory last year, then takes on a provisional air. The wrangling and rancour with London increase – to the advantage of the Nationalists and the disadvantage of Labour. The tide runs on towards a Nationalist victory in 2003 and an independence referendum not long after. The ambitious reshaping of the UK constitution by a Labour government dominated by Scots starts to unravel.



The "sleekit" Salmond, and Dewar: who will be First Minister?

It was not supposed to be like this. When Labour rammed through its devolution proposals following its general election victory, it aimed to satisfy the Scots' appetite for home rule, thereby consolidating Scotland's position in the union.

Mr Dewar, the Scottish secretary and likely first minister, thought he could ride the wave of enthusiasm from the referendum into a comfortable Labour victory next May. Thus empowered, and building on close relations with the London government, he would set about producing policies that responded more closely to Scotland's needs and wishes.

Instead, Mr Dewar now has the weary air of a man under siege. He has been genuinely surprised by the Nationalists' strong showing in the polls. His party is divided, and in places corrupt. He has made mistakes that have fed the SNP's propaganda machine.

Perhaps most serious from the point of view of the coming election campaign, he is having obvious difficulty framing a counter-attack. Mr Salmond, the SNP leader, is a uniquely slippery target, constantly shifting his emphasis between the campaign for independence and a more Blair-like promise of good governance for Scotland. Citing Burns, Mr Dewar calls him "sleekit" – plausible, sly and deceitful.

But Labour's problem goes deeper. It is now seen by many Scots as the party of middle England; Tony Blair is viewed as out of touch with Scottish concerns. That exacerbates the Scots' tendency to oppose whoever occupies power in London. Given their own parliament, why would they not vote for a party that vows to put Scotland first?

Mr Dewar has two responses. He attempts to pick apart Mr Salmond's arguments on the politics and economics of independence. And more sotto voce, he warns that a powerful SNP could put at risk favourable treatment of Scotland within the union, whereby it receives, for instance, higher public spending per head than other parts of the UK.

Neither approach is likely to work. The arguments about independence are abstruse and confusing, and many voters will feel they can be left for an eventual referendum campaign. Whether or not Scots are indeed better off within the union than outside it, most do not feel they are. Resentment that remote rulers in London conspire to do the country down is as ingrained in the national consciousness as the flavour of peat in a fine malt.

It is this sentiment, rather than the desire for independence per se, that is probably driving the SNP's poll ratings up. To counter it, Labour's team – newly reinforced with the controversial appointment of media baron Gus Macdonald as minister for business and industry – needs distinctive policies with a home-grown flavour.

But there is little sign of any such policy platform emerging from the Scottish Office. And it is hard to see Mr Dewar fashioning a manifesto containing ideas significantly at odds with those of his New Labour colleagues in London.

There is a strong chance, therefore, of Mr Salmond becoming at least a powerful opposition leader in the Scottish parliament. He could find himself in a position to claim shared credit for its successes, and, more important, to blame its failures on London and its Labour puppets in Edinburgh.

So what, you may say: the Scots do not really want full-blown independence, and would almost certainly vote the idea down if a referendum were held tomorrow. Even if the SNP were to win the second elections to the parliament, due in 2003, it would not necessarily mean independence was round the corner.

Perhaps not. But that is not the point. What worries business is the prospect of endless uncertainty and altercation over Scotland's status, rather than the nature of an eventual settlement.

Hence the gritted-teeth reference to Quebec. Voters there have for decades elected pro-independence provincial governments and then turned down independence in referendums. The effect of the uncertainty on Quebec's economy and on Canada as a whole has scarcely been salutary. And the Bank of Montreal long ago moved its head office to Toronto.

The optimists prefer the example of Catalonia. There, voters have long elected a strong regional government intent on boosting their region's interests within Spain rather than on secession. The dominant regional party thrives by keeping its distance from the parties in Madrid – and now holds the balance of national power.

But that is, for the moment at least, not Mr Salmond's tune. He insists that independence is the aim, and that his party will, Quebec-style, put that idea to the voters again and again – until they vote yes.

FINANCIAL TIMES

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Friday August 14 1998

Russia's options

Russia's IMF agreement last month raised hopes that its troubles might finally be over. This week, these hopes were in tatters, along with Russia's financial markets. George Soros, in a letter published in this newspaper yesterday, said that it has no choice but to devalue and introduce a currency board. Has Russia really run out of options?

The root of the crisis is a lack of confidence in the exchange rate and in government's ability to honour its debt. This is despite the support provided by the IMF deal, and despite the government's admirable actions to improve the budget balance.

The financial markets are being crushed. Short-term bond yields rocketed to over 200 per cent yesterday, as liquidity in the interbank market dried up and Russia's banks scrambled to sell bonds to meet their liabilities. The central bank has been pouring its reserves into supporting the currency, prompting it yesterday to impose limits on banks' purchases of foreign currency.

Yet a full-scale financial crisis is not as imminent as Mr Soros fears. With its reserves boosted by the IMF package, the Russian government can meet its debt-servicing requirements until mid-September or so, even assuming that it fails to issue any new debt. Both it and the west do therefore have some time to consider the next move.

One option is devaluation. However it hardly needs saying that this would be extremely risky. With markets as turbulent as Russia's, there can be no such thing as a "controlled" devaluation. Such a move would most likely spark a panic reaction, sending the rouble into a tailspin. This would risk all the government's achievements of the past few years, and could even end in the collapse of both the government and the reforms.

The urgent challenge is to restore confidence to financial markets. What the IMF must do at once is announce its intention to shift more of the money intended for supporting the rouble towards direct finance of the budget. By making it easier for the government to roll over debt, this should help restore the confidence now sadly lacking.

Yet this tactic is only a stop gap. In the longer term, it is essential for the government to restructure its debt and strengthen the public finances. Total domestic government debt is not excessive, but its maturity structure, even after last month's restructuring package, is heavily skewed toward the short-term. The last restructuring deal involved converting domestic bonds into dollar-denominated securities. But it left the Russian dollar bond market saturated and unstable. A way needs to be found to lengthen the maturity of rouble-denominated bonds.

In addition to restructuring debt, the Russian government must continue to devote its efforts to implementing its fiscal reform programme. Provided it does so, the west should in turn provide the funds Russia needs both to meet its short term financing requirements and to stabilise the rouble. The confidence crisis has indeed turned out to be far more severe than was initially supposed, in large part because of events elsewhere. Yet so long as the government is pursuing a sensible reform programme, the west has no sane alternative but to continue to support it.

Car ramp

The British government's attitude to car buyers is about as high handed as Henry Ford's – when he said they could have any colour they liked if it was black. In this case consumers can have what they like so long as it is not a "grey" (unofficial) import. These are much cheaper than nearly identical cars from authorised dealers.

To ensure that imported cars conform to European safety standards, they must generally be authorised under the EU whole Vehicle Type Approval scheme. This is the blanket approval used by wholesalers for bulk imports. However, individual cars may be shipped into the UK under the Single Vehicle-Type Approval regulations (SVA) on payment of an £165 inspection fee.

This system was originally designed to ensure that one-off personal imports conformed to safety regulations. Accordingly, a limit of 50 cars in each model was set. However, the SVA regulations have increasingly been used by independent traders to bring in cars of standard manufacture from south east Asia. Because of the high level of prices maintained by official dealerships in the UK, such imports can be sold at around two thirds of the "official" prices.

Clearly this price competition is entirely beneficial to the consumer and should have been welcomed by the government. For a time it seemed that Dr Gavin Strang, the former transport minister, would open up this trade by abolishing the numerical restrictions. But his resolve crumbled after lobbying from the industry, and in May he announced that the quota would remain.

Now the independent traders are challenging the decision in the courts. They deserve every success. For whatever the legal niceties turn out to be, the present quota on grey imports is blatantly anti-competitive. The price differential between British and other car markets is hard to justify and needs to be challenged vigorously.

Yet the High Court is not the best place to achieve a policy change of this kind. The replacement of Dr Strang by John Reed in the recent reshuffle gives the UK government a chance to think again. A sharp prod from the EU competition directorate could give it the political excuse to do so. The government says it is pro-business; it must show that this does not mean giving in to any businessmen who wants to maintain a fence round his market.

Moral debt deal

Nearly two years of legal wrangling and sanctions threats have finally produced a deal between the two main Swiss banks and Jewish groups, backed by local politicians, in the US. UBS and Credit Suisse are to pay Holocaust survivors $1.25bn in compensation for failing to return wartime deposits and, more broadly, for Switzerland's role in laundering Nazi loot.

Settlement of this dispute, which has severely strained relations between the US and Switzerland, should restore some calm to the wider historical re-examination of one of the darkest chapters of this century.

The deal is a compromise. The $1.25bn to be paid by the banks over three years looks much nearer the $1.5bn that the Jewish groups were demanding than the $600m the banks offered in June. But unlike that offer, it covers any claims arising out of the Volcker inquiry into the Swiss banks' dormant accounts. The deal also provides for the dropping of any claims against all other Swiss banks. The most important of these is the Swiss National Bank.

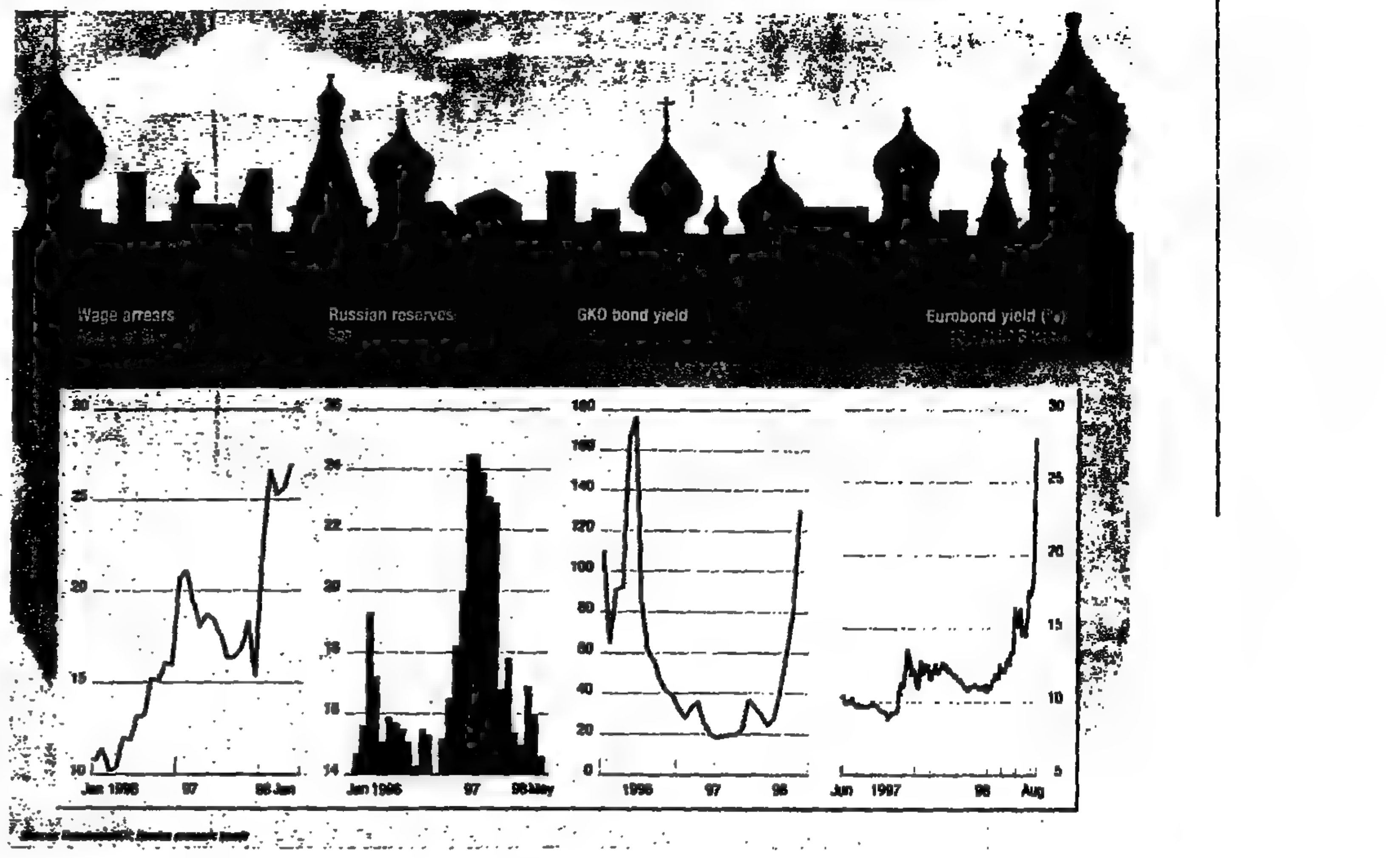
There are still loose ends. The deal does not cover the Swiss insurance companies, which are among 16 European insurance companies that have been taken to court in the US for not paying out on policies on lives lost in the Holocaust. But there is a prospect of a more amicable settlement, brokered by insurance commissioners of individual US states.

There remains the possibility that US litigants will use the Swiss bank deal as a precedent to go after others. Deutsche and Dresdner banks of Germany are being sued for compensation in the US. But the case against them may be harder to prove, because it rests on their overall role in laundering Nazi war loot, not on any specific dormant accounts of Holocaust victims. Other European wartime neutral countries which collaborated with the Nazis have financial institutions which appear neither as culpable, nor as tempting a target, as the Swiss.

There are two broader lessons. Switzerland undoubtedly feels threatened by the international reaction. The search for allies has revived Swiss interest in joining the European Union. For the US, the affair represents in some sense a victory. But the way in which it was achieved – sanction threats by individual US states – stores up difficulties for Washington in future.

Russia's moment of truth

Markets are collapsing and threatening to drag banks and the rouble down with them. But, says John Thornhill, default may prove a more palatable option than devaluation



It was only three weeks ago that Russia's beaming prime minister, Sergei Kiriyenko, declared "absolute victory" as the International Monetary Fund approved the first part of a rescue package designed to haul Russia from deepening crisis. Yesterday, Mr Kiriyenko was staring at the prospect of absolute defeat.

The country's collapsing financial markets have already cut off the government's access to fresh finance, exacerbating its short-term funding difficulties. This in turn is eating away at the central bank's hard currency reserves – which fell $1.4bn to $17bn in the first week of August – and is threatening to destroy the country's banking system.

In a letter to the Financial Times, George Soros, the world's best-known speculator, said the meltdown in the had now reached a "terminal phase". Yesterday, his prophesy appeared self-fulfilling.

The prices of Russian equities and bonds plummeted to new lows this year. The stock market, which was suspended at one point, fell 15 per cent before recovering to close 6.5 per cent down. The word on every market participant's lips was that either the government would have to default on its debts or devalue the rouble. Neither is a happy prospect.

"If you had to sum up the mood of investors in one word it would be despair," said one market trader. "Investors have completely lost faith in the government," echoed Moscow's Kommersant business newspaper.

Yet there is still a sense of unreality about the crisis. Most Russians, who do not have mortgages, car loans or credit cards, appear oblivious to the wild gyrations of financial markets and interest rates. Even though the financial system appears on the brink of collapse, top Russian officials – including Boris Yeltsin, the president, Sergei Dubinin, head of the central bank, and Anatoly Chubais, the chief debt negotiator – remain on holiday.

Even Mr Kiriyenko, who has made heroic efforts to grapple with his responsibilities since entering office in March, was refusing to admit the gravity of the situation yesterday. "What is happening on the markets belongs in the realms of psychology," he said. "There are at present no financial grounds for a deterioration in the situation."

Objectively, Mr Kiriyenko may be right. Russian markets appear to have been the victim of negative investor sentiment about the Japanese yen, the recent slide on Wall Street, further falls in the international oil price and fears of a Chinese devaluation. Prices have moved wildly in extremely thin volumes after most big investors closed out their positions ahead of their holidays.

"My feeling is that markets in Russia are over-reacting," says Nicholas Stern, chief economist at the European Bank for Reconstruction and Development. "I do not think the markets have learned anything new over the past three weeks and, in that sense, the price movements are rather artificial."

Yet, as has proved to be the case in several Asian countries, extreme market falls can quickly cause fundamental problems of their own. The danger is that this is beginning to happen in Russia as the collapse of the financial markets threatens to undermine the banking sector. The central bank yesterday moved to increase liquidity in the sector as rumours abounded that even some of the country's biggest banks were in severe trouble.

Holger Mueller, banking analyst at Fleming UCB, the Moscow-based investment bank, says Russian banks have been caught in a liquidity squeeze as the value of their financial assets has plummeted. Creditors have started calling in their credit lines and refusing to roll over hard currency loans.

"The main risk now is that one of the big banks that has household savings may not be able to pay out on their deposits which would cause substantial damage to confidence and trigger a run on the banks," he says.

If retail depositors started withdrawing their money from the banks – estimated to be $25bn at the end of June – this would put enormous pressure on the government debt market as banks were forced to liquidate their Treasury bill portfolios. It could also endanger the stability of the rouble as the population switched into dollars.

Yet the central bank appears acutely aware of the dangers of keeping weak banks afloat. Many Russian banks are run more like speculative hedge funds than conservative financial intermediaries and their collapse would do little harm to the broader economy. "The central bank is afraid of injecting too much liquidity into the banking system because it will just be used to buy dollars and further destabilise the rouble," Mr Mueller says.

In his letter to the FT, Mr Soros argued that the action needed to resolve the banking crisis was diametrically opposed to the action the government had agreed with the IMF to solve its budget crisis. "The IMF programme imposes tight monetary and fiscal policy; the banking crisis involves the injection of liquidity," he wrote.

Mr Soros argued the only way out of this dilemma was to introduce a currency board – backed by $50bn of reserves – after a 15-25 per cent devaluation of the rouble. Such currency boards, which fix the local currency to a hard currency and ensure that domestic money supply expands or contracts in line with hard currency reserves, have brought financial stability to countries as diverse as Argentina, Estonia and Singapore.

> 'A devaluation would be a disaster. The market would end up chasing its own tail downwards'

But the Russian government has long argued it would be impractical to introduce a currency board in such a big and complex country. Besides, where would the $50bn come from?

"For a currency board to work, you have to have a very flexible fiscal policy because you have no control over your monetary policy," says one western economist. "But anyone who understands how fiscal policy works in Russia knows that that is not very realistic."

A better way of letting some steam out of the system may be to have a controlled devaluation – to reflect the fall in commodity prices which form the bulk of Russia's exports – and introduce a more flexible exchange rate regime. But again the question is whether Russia has the institutional capability, and sufficient international reserves, to deliver such an outcome.

Ministers fear any devaluation of the currency would panic the population leading to a run on the banks and a rout of the rouble. "A devaluation would be a disaster," the western economist said. "It would end up with the market chasing its own tail downwards."

Before it contemplates a devaluation, the government seems more likely to force a restructuring of the domestic treasury bill (GKO) market, which has been the chief cause of its financial woes this year. Politically, it is becoming increasingly hard for the government to persuade striking workers that it should honour its debts to foreigners in the debt markets before it pays off wages to coalminers and teachers.

With foreign investors reluctant to roll over their holdings of short-term GKOs, the thinking is that the government may force them to do so by unilaterally lengthening the bonds' maturities. "Russian debt is already trading at default levels," says one bond holder. "Investors are beginning to reconcile themselves to the fact that they are going to get restructured."

Such a step could not be taken lightly. Any such drastic measure would close off Russia's access to capital markets for many months to come. But so long as the government continued to run a budget surplus, it could soldier on regardless. That would win more time to overhaul its tax regime and put its public finances in order.

A growing part of the Russian industrial establishment appears to favour devaluation. They believe this would make their exports more competitive lower their domestic cost base. Russia's politically powerful oil and gas companies, which own large parts of the country's media, argue that a devaluation would be the best way out of their own financial difficulties. They have taken to dismissing the IMF as "Gosplan on the Potomac", referring to the Soviet command economy.

For the moment at least, the government appears determined to stick to its IMF-approved austerity plan. The Fund has given the central bank sufficient reserves to hold the rouble for several more weeks, perhaps months, assuming there is no mass mass panic among the population.

Ministers are still arguing that investor confidence will return after the government has demonstrated its commitment to raising tax revenues and pursuing painful structural reform. It is also possible that more support may come from the IMF or Group of Seven countries to plug the expected hole in the government's funding needs this year.

The US administration, in particular, appears desperate to help the Russian government through its financial crisis, especially since President Bill Clinton is due to visit Moscow on September 1. David Lipton, the undersecretary of international affairs at the US Treasury, yesterday held talks in Moscow with Mr Kiriyenko to discuss the government's financial plight.

It is clear that the Russian government has no easy options. It remains highly vulnerable to global events and market moods beyond its control. Yet the outcome of the next few weeks could prove critical in determining the stability of the Russian economy and the political system for years to come.

It has become something of a cliché to argue that Russia is forever at a turning point. But this time, it may be true.

OBSERVER

Watch this space

A year ago, Yury Baturin was kicked out of his Kremlin job as Boris Yeltsin's defence adviser. Yesterday he was turfed off the planet. The bespectacled 49-year-old political fixer blasted off from the Baikonur Cosmodrome in Kazakhstan, strapped into a spaceship with the relief crew for the accident-prone Mir space station.

The former lawyer and journalist has spent a year in training and lost 18 pounds, but it was his political weight that won him the 10-day space trip.

"Naturally his having a rather high position in the government did play a certain role," admits Andrei Maiboroda, deputy head of cosmonaut training. His record of resolute lobbying inside the Kremlin corridors for the Russian Space Agency can't have done any harm either.

The Russians are happy with their excess payload. "We can teach anyone to become a cosmonaut as long as he is not an idiot," said Viktor Blagov, Mir's deputy flight director. Which is good news for any government which likes the idea of sending excess bureaucrats hurtling off into the cosmos.

Cast off

It's intermission time in India's political theatre, where former film star J. Jayalalitha is playing the role of the woman who can topple the coalition government by pulling her party out.

The audience's eyes were glued to Madras yesterday as the drama queen met party colleagues to decide what to do about the latest crisis – triggered by a complex dispute between states over water resources.

In the end, the star stayed in her dressing room while a bit part player – petroleum minister V.K. Ramamurthy – emerged to say that the party had given her authority to decide what to do at the appropriate time, whenever that might be.

The star's unusual coyness may be explained by the lack of encouragement from India's Congress party, which might be content to let the BJP-led coalition totter on for a while.

The next reel could start running on Monday, when India's Supreme Court is due to hear a case on the water question. Some say Jayalalitha, painted into a corner by her own political brinkmanship, may keep mum a bit longer – until she gets her cue from Congress. And that will depend on the other megastar of Indian politics, Sonia Gandhi.

The house lights may be up for some time. Popcorn anyone?

Staying away

Sweden may boast one of the highest standards of living in western Europe, acres of space and gallons of fresh air. But Swedish executives on overseas postings seem curiously reluctant to go home.

Telecommunications giant Ericsson has lost a cadre of top management in the US – ostensibly because they couldn't be persuaded to return. Overall US boss Bo Hedfors has joined arch-rival Motorola rather than go back to Stockholm, while colleagues Anders Torstensson and Boguslaw Piekarski are moving on as head of the mobile phones and business development respectively.

"Once they get a taste for the life out there, it is sometimes difficult to return," according to one company insider. Aircraft maker Saab is understood to be suffering similar problems in trying to lure executives to its headquarters in the admittedly less than lively town of Linköping.

Clearly income taxes of 60 per cent are a powerful deterrent, as are the long winters. For Swedes, it seems, there's no place like home.

Left foot forward

The election campaign by Germany's Party of Democratic Socialism – successor to the communists – is full of glitzy video clips, aggressive posters and brash slogans quite out of line with the stuffy Stalinism of its predecessors.

In a video smacking more of MTV than Marx, a skimpily-clad girl races across two escalators – one is carrying well-dressed capitalists upward, while on the other Germany's oppressed masses try desperately not to be drawn downhill. The girl switches the escalators round to the tune of the PDS campaign song: *This is Still My Country - and Nobody Needs to Shut Up.*

Party boss Gregor Gysi managed to keep a straight face as he attacked rival political parties for trying to "Americanise" their campaigns. But if they really must, he added with a grin, they should at least do it properly.

Motor way

Renault chairman Louis Schweitzer's disclosure that the French carmaker fancies a slice of the privatisation of Romania's Dacia – some of whose cars are based on old Renault models – might just jog a few memories in Paris. After all, cultural links between France and Romania are strong.

After a hesitant start, Lionel Jospin's Socialist-led government has been flogging off its own state assets with increasing gusto. Now that Renault is dangerously close to getting its act together in its centenary year, Bucharest's determination to get out of the metal-bashing business might just remind a few officials in France that Renault is still 44 per cent state-owned.

The Financial Times 50 years ago

Uruguay Denies Rumour
Montevideo, August 13. The Uruguayan Minister of Finance denied here last night any intention to devalue the peso. Rumours of devaluation circulated in business and banking circles when the Bank of the Republic withdrew from trading in the free market on Wednesday, but continued to quote exchange for imports and exports. The bank's withdrawal from the free market was described by the Minister as a "temporary measure" and was due, according to authoritative sources, to heavy demand for dollars from Argentina.

Rumania Unfreezes Funds
Bucharest, August 13. In view of the country's improved currency position, Rumania's Finance Minister has decided to release certain of the funds blocked when Rumania's currency was reformed in August last year. The lei funds to be released are small savings bank deposits, money deposited by diplomatic missions, funds deposited by nationalised industries and those belonging to the State before nationalisation, and various savings, pensions and public and private credits.

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THE LEX COLUMN

Tokyo on the tightrope

Recommending a "hairshirt" solution to someone else's problems is often tempting. The temptation is well-nigh irresistible in Japan's case, given the country's aversion to change and its underwhelming new group of political leaders. But Long Term Credit Bank of Japan is a salutary reminder of the dangers a radical shake-out could pose.

Voices in the market are baying for blood and have set on LTCB as the sacrificial lamb. But closing banks is no simple matter when you are simultaneously trying to resuscitate the economy. The closure last November of Hokkaido Takushoku devastated the regional economy. And LTCB presents an even more difficult challenge – it has extensive international exposures, much of it through derivatives. It is also large – some six times the size of Continental Illinois, deemed too big to fail by the US authorities in 1984. Satisfying market vigilantes might, therefore, have serious systemic consequences.

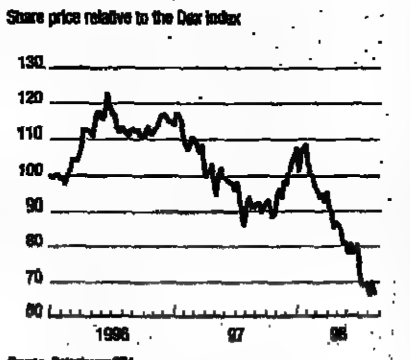
Doing nothing is not an option. That would trigger a spiral of economic and market gloom probably just as severe. Japan's authorities must tiptoe between these two extremes. Shareholders and management have to take their punishment. But this must not be allowed to unleash damaging systemic consequences. This may mean throwing a temporary lifeline to the likes of LTCB.

Veba

Veba's business difficulties are only half the problem. The losses at its silicon wafers unit are disappointing, though hardly surprising, given the state of the semiconductor industry. More worrying is the red ink in telecommunications, with start-up costs well above expectations. But this is largely due to 120 new competitors scrabbling for share. Most of them will disappear as the market shakes out. Meanwhile, Veba has put together a valuable collection of telecoms assets, which could be sold if they do not perform.

The real disappointment is the group's failure to communicate the bad news properly. This has rightly angered investors who bought into Veba as a shareholder-friendly company that promised consistent double-digit growth. The result has been huge underperformance; the DM96 share price compares with

Veba
Share price relative to the Dax index



Source: Datastream/ICV

break-up values of DM150 and more. To regain trust, the management will have to keep restructuring and eventually dismantle the group's conglomerate structure. The example of rival Viag, whose shares have jumped over 20 per cent since it booted out its senior management in June, should provide plenty of motivation.

Cross-border M&A

Cross-border takeovers financed by stock, once considered impossible, are suddenly all the rage. British Petroleum Amoco and DaimlerChrysler, the two largest industrial mergers to date, are taking this approach. So have several smaller deals, such as Interpublic's purchase of Shandwick, the UK public relations outfit.

The attractions of using paper are obvious, since all-stock deals can be structured to avoid painful tax and goodwill charges – an advantage US companies have long enjoyed domestically. The sticking point has been a belief that shareholders do not want to hold foreign stock in a different currency.

As investors have become more global in outlook this is clearly no longer the case. Companies are also doing their best to make their paper palatable; BP is making much of the liquidity of its American Depositary Receipts and switching its reporting to dollars.

DaimlerChrysler is going one better with its new global registered shares. While these are hard to distinguish from ADRs in practical terms, more US investors may qualify to hold them. They may even gain entry into the S&P 500 index, opening them up to index-tracking funds. And both groups are offering shareholders dividends in the currency of their choice.

For now, all-share cross-border deals will probably remain confined to two types of deals: big mergers among household names that institutions will have to participate in, or purchases of small companies by much larger ones, where any flowback of shares would matter little to the acquirer. But as investors become accustomed to holding foreign paper, the middle ground will open up – and so will the floodgates.

Parmalat

Tired of milking the cows? Try the shareholders. That appears to be the philosophy of Calisto Tanzi, the controlling shareholder of Italian dairy products group Parmalat. Mr Tanzi's acquisitive habits have seen turnover leap from L4,300bn in 1995 to an expected L10,000bn this year. But his appetite is far from sated, hence a planned $600m capital raising exercise. But just how does a family capitalist grow fast while keeping control?

Answer: resort to the discredited mechanism of non-voting savings shares. Worse, Mr Tanzi reckons he can escape pricing these shares at the typical 35 per cent discount to normal shares. Because the savings shares are convertible in the event of a takeover, he hopes to get away with a 10 per cent discount. But this is spurious, since Mr Tanzi controls the company and is resorting to savings shares precisely in order to preserve this position.

Moreover, for the new stock to yield the 3 per cent that savings shares average, it would need to be priced at about L1,600, not the L3,000 which Mr Tanzi is targeting. But if the issue proceeded at the cheaper level, there would be huge earnings dilution. No wonder the shares have fallen 12 per cent since the issue was announced.

The best thing for Italy would be if Mr Tanzi's efforts failed. The lesson that fast growth requires sharing the spoils clearly needs reiteration.

Senior MP's defection hits S African National party

Decision by frustrated reformer is coup for United Democrats

By Victor Mallet in Johannesburg

The National party, which imposed apartheid on South Africa for four decades before yielding to majority rule in the 1990s, was dealt a severe, possibly fatal, blow yesterday when one of its senior figures defected to another party.

Sam de Beer, a former cabinet minister, who was leader of the NP in Gauteng – the country's most important province embracing both Johannesburg and Pretoria – joined the year-old United Democratic Movement in a public signing ceremony and automatically lost his position as a member of parliament.

Mr de Beer's choice of the UDM rather than the Democratic party is a coup for the new party, founded by Roelf Meyer – like Mr de Beer a former NP reformist – and Bantu Holomisa. Mr Holomisa called Mr de Beer "a big fish" and Mr Meyer said he would be followed by a stream of other deserters from the Nationalists.

Many voters are disappointed by the African National Congress government's failure to reduce unemployment or boost economic growth. The multiracial UDM, in spite of the vagueness of its policies, appears to be emerging as the ANC's main challenger in next year's general election because other opposition parties are identified with particular racial or ethnic groups.

"The contest will be between the ANC and the UDM," Mr Holomisa said. "We do qualify in terms of demographics to put up a strong fight against the ANC."

The NP's dismal showing in recent local elections suggests it is a spent force as a nationwide organisation and may survive only in the Western Cape.

Right-wing whites accuse the NP of betraying them by handing over power to the ANC, while most other South Africans remember it as the party of oppression and racial segregation. The ANC said Mr de Beer's resignation merely confirmed the NP's "reserved place on the rubbish dump of history".

Mr de Beer said he had struggled for three years to reform the NP, but had eventually been forced to admit failure. "I joined the UDM today because this party reflects the feeling of how a South African party in these days should look and feel," he said. "The political scene in South Africa has to be restructured. South Africa needs a dynamic new party that truly represents all the people."

South Africa's old-fashioned Nationalists may be in terminal decline, but they are not leaving the stage without a fight. On Monday, a lengthy court case against the 82-year-old P.W. Botha, former South African president and NP leader, for refusing to testify before the Truth and Reconciliation Commission investigating apartheid-era crimes is due to resume in the town of George.

Howard gambles on 'biggest tax reform in Australia's history'

PM's make-or-break move reflects rise of One Nation party

By Gwen Robinson in Canberra

John Howard, the Australian prime minister, yesterday staked the future of his conservative coalition on plans for sweeping tax reforms.

The package, which Peter Costello, the treasurer, described as incorporating the "biggest tax changes in the history" of the country, includes the introduction of a 10 per cent goods and services tax to replace a host of indirect taxes.

For the coalition, reeling in the face of the rapid rise of the populist One Nation party in rural and industrial areas, the announcement represents a make-or-break move.

The package involves personal income tax cuts of about A$13bn ($7.8bn) and provides benefits to low-income families, farmers, miners and export-dependent industries – all groups that have voiced dissatisfaction with the government's policies.

Mr Howard said the government planned to implement the reforms in July 2000, but only if his coalition was re-elected in forthcoming polls. Officials indicated that the public response to the promised reforms would determine whether Mr Howard called an early election, possibly in October, instead of serving his full term to mid-1999.

The announcement follows a string of political defeats for the prime minister, including parliament's recent rejection of his proposal to privatise the remainder of Telstra, the Australian telecommunications giant. More significantly, it follows a previous attempt by Mr Howard's Liberal party to sell a goods and services tax (GST) to voters. That proposal lost the party the 1993 election.

Australia relies heavily on income tax as it is one of the few developed countries to lack any form of consumption tax. Critics warned of the impact of the reforms on Australia's fiscal position and on the government's projections for substantial budget surpluses in the coming years. Mr Costello acknowledged yesterday the GST would cut the projected budget surplus in 2000 by about A$4.8bn to A$3.85bn. The tax reforms would increase annual consumer price inflation by nearly 2 percentage points from mid-2000, but it would be a "one-off effect" with no implications for monetary policy, he added.

Mr Costello said the Reserve Bank of Australia, the country's central bank, "realised" the GST would have only a one-off impact on inflation. "They will also understand that the reforms are worth having for all sorts of decent economic reasons," he said.

Nevertheless, some economists warned the central bank might undertake a pre-emptive monetary policy tightening to offset the effect of the changes.

Mr Costello also promised to maintain budget surpluses in spite of the erosion of the budget's bottom line in the coming years from the net impact of the tax changes.

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President Bill Clinton, Hillary Clinton and Madeleine Albright as bomb blast victims' remains arrive at Andrews Air Force base. Page 4 Reuter

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FT WEATHER GUIDE

Europe today

Scandinavia will be mostly dry with sunny spells. Rain will move into south-western Norway and Denmark later. Low pressure over the Baltic countries will bring showers and locally heavy rain, spreading across western Russia. A cold front from Ukraine to the eastern Alps will bring showers and thunderstorms. High pressure across western and central Europe will bring fine, settled conditions with plenty of sunshine. The Mediterranean will remain hot and mainly sunny.

Five-day forecast

Rain and thunderstorms will sweep across much of Europe over the next few days. Before and following this system, there will be drier conditions with some sunshine. Another frontal system should make it cooler in western Europe early next week. The Mediterranean will stay hot and sunny.

Situation at midday. Temperatures maximum for day. Forecasts by PA WeatherCentre

TODAY'S TEMPERATURES

		Maximum Celsius
Abu Dhabi	Sun	44
Accra	Cloudy	28
Algiers	Sun	33
Amsterdam	Fair	21
Athens	Sun	34
Atlanta	Thunder	34
B. Aires	Fair	15
B.ham	Drzzl	23
Bangkok	Thunder	33
Barcelona	Fair	29
Beijing	Cloudy	32
Belfast	Rain	18
Belgrade	Sun	31
Berlin	Fair	22
Bermuda	Cloudy	30
Bogota	Thunder	19
Bombay	Thunder	31
Brussels	Fair	23
Budapest	Shower	27
C.hagen	Cloudy	21
Cairo	Sun	34
Caracas	Cloudy	32
Cardiff	Shower	21
Casablanca	Fair	25
Chicago	Fair	28
Cologne	Fair	24
Dakar	Fair	30
Dallas	Thunder	33
Delhi	Fair	38
Dubai	Sun	43
Dublin	Rain	20
Dubrovnik	Sun	31
Edinburgh	Rain	18
Faro	Sun	28
Frankfurt	Fair	28
Geneva	Sun	27
Gibraltar	Sun	29
Glasgow	Rain	18
Hamburg	Rain	31
Helsinki	Rain	17
Hong Kong	Fair	32
Honolulu	Cloudy	31
Istanbul	Fair	31
Jakarta	Cloudy	32
Jersey	Fair	21
Johannesburg	Fair	20
Karachi	Cloudy	36
Kuwait	Sun	47
L. Angeles	Fair	29
Las Palmas	Fair	27
Lima	Cloudy	19
Lisbon	Sun	30
London	Fair	25
Lux.bourg	Fair	24
Lyon	Sun	28
Madeira	Fair	25
Madrid	Fair	35
Majorca	Fair	31
Malta	Sun	34
Manchester	Rain	20
Manila	Thunder	34
Melbourne	Fair	14
Mexico City	Cloudy	26
Miami	Thunder	[illegible]
Milan	Sun	32
Montreal	Fair	29
Moscow	Rain	17
Munich	Fair	25
Nairobi	Cloudy	22
Naples	Sun	35
Nassau	Thunder	33
New York	Fair	26
Nice	Sun	29
Nicosia	Sun	34
Oslo	Shower	20
Paris	Sun	27
Perth	Fair	20
Prague	Fair	22
Rangoon	Thunder	31
Reykjavik	Rain	13
Rio	Fair	22
Rome	Sun	32
S. Frsco	Fair	23
Seoul	Thunder	30
Singapore	Cloudy	32
Stockholm	Shower	19
Strasbourg	Fair	26
Sydney	Fair	20
Tangier	Fair	27
Tel Aviv	Sun	34
Tokyo	Fair	30
Toronto	Fair	27
Vancouver	Fair	20
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Warsaw	Shower	19
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INSIDE

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MARKET STATISTICS

Telecoms losses hit Veba profits

Silicon wafer problems halt German group's growth

By Ralph Atkins in Bonn

Veba, Germany's fourth largest company, yesterday saw its earnings track record thrown sharply into reverse as its push into telecommunications fell well short of expectations and Asia's economic crisis hit silicon wafer activities.

The diversified industrial conglomerate, which listed its shares in New York last October, warned higher losses in telecoms and from its MEMC silicon wafer subsidiary would drive net profits this year "significantly below" last year's DM2.8bn ($1.55bn). First-half pre-tax earnings were up 14.7 per cent at DM2.59bn but fell by 9.1 per cent after adjustments for divestment gains and restructuring costs.

"After 17 quarters with double digit profits growth, we're experiencing a necessary consolidation phase," said Ulrich Hartmann, Veba chairman.

Veba's telecoms losses reflected the poor start by o.tel.o, its joint venture with RWE, the Essen-based industrial conglomerate, despite planned investment of DM7bn. The market was fully liberalised on January 1. Veba blamed strategy flaws and pointed to a new management team installed last month. Veba's half year telecoms losses were not disclosed but o.tel.o is expected by analysts to make total losses this year of about DM2bn.

In contrast, Mannesmann, the rival Düsseldorf-based conglomerate, yesterday said profits from its telecoms activities jumped DM184m to DM697m in the first half. Mannesmann's strength was based on its D2 mobile networks. But Mannesmann Arcor, its fixed line business, started public services earlier than o.tel.o and from the outset placed no requirement on customers to register before using its network.

Veba said it remained committed to developing its telecoms business, building on o.tel.o's success in the business sector and by integrating E-Plus, its sister mobile company. Veba is also expected to conclude soon negotiations with BellSouth over a planned stake in o.tel.o.

Mr Hartmann said the MEMC business remained "attractive", despite tumbling prices and losses of DM161m in the first half plus restructuring charges of DM250m. MEMC is be taken under direct control from Düsseldorf – rather than be absorbed into the new chemicals group being created by the merger of Veba's chemicals activities with Frankfurt-based Degussa.

Veba sought to counter the impact of yesterday's announcement by revealing cost cutting measures would be stepped up, with annual savings worth DM1.3bn now expected from 2002, compared with DM1bn. Meanwhile, restructuring at Stinnes, the distribution and logistics company, could hit earnings in 1998, Veba warned. The group is also looking to sell sanitary and heating activities.

Yesterday's news tarnished Veba's image, with the shares ending down DM3.65 at DM95.75, having fallen to DM92.6 at one point.

"We need to see that all the action is having some effect before sentiment will turn in their favour and narrow the discount to the sum of the parts," said Martin Dixon-Ward, analyst at Flemings Securities in London.

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Boeing set to move plants and cut costs

By Tracey Corrigan in New York

Boeing, the struggling Seattle-based aerospace group, plans to open a 737 assembly line in Long Beach, California, and consolidate fighter aircraft production in St Louis, as part of its efforts to cut costs and improve efficiency.

"We are strategically aligning our operations in response to global business realities. We are reducing costs. The end result is that we are ensuring a stronger, more competitive company," said Phil Condit, Boeing chairman and chief executive officer.

Boeing previously said it would reduce its total workforce by 18,000 to 28,000 by the end of 1999.

Analysts said the latest moves were seen as unlikely to halt speculation that Mr Condit was preparing to resign. Boeing has denied this and other rumours, including the replacement of Mr Condit by Boeing president Harry Stonecipher.

Among yesterday's changes, the company said it was relocating the headquarters of the Information and Communications Systems business unit to Anaheim, California, from Kent, Washington, and vacating all government-owned space in Downey, California.

"These guys are six months late," said one analyst. While management had taken action to cut costs, it bore responsibility for poor margins. "They should not have set those prices if they could not get the costs down. It has not been an appropriately run company."

Mr Condit took over as chief executive officer in April 1996 and has made two substantial acquisitions, but production problems tipped the company into losses.

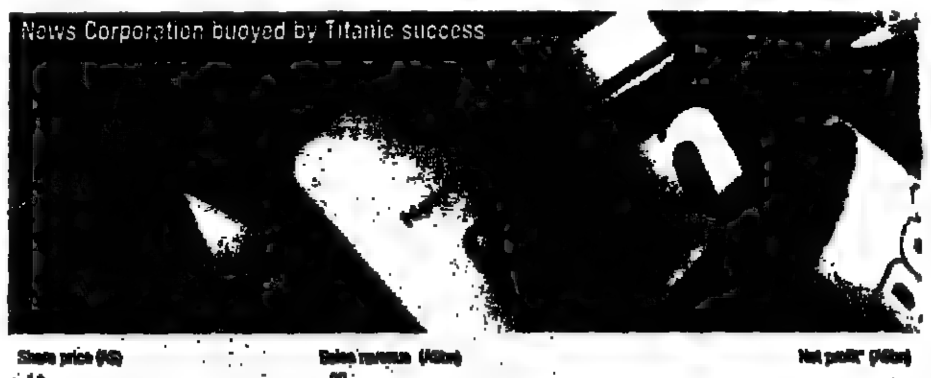
The move of next-generation 737 production to Long Beach has been expected. The change will free the over-stretched plant in Renton, Washington.

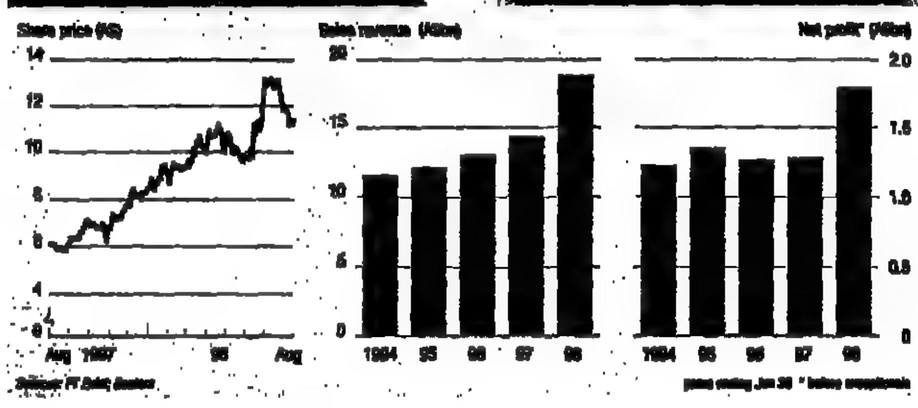
"The additional 737 line will supplement capacity in Renton and allow more efficient and productive use of that key final assembly facility," Mr Condit said. "We will begin final assembly of the first Next-Generation 737 in Long Beach in the fourth quarter of this year."

By the second quarter of 1999, the company expects to be assembling three next-generation 737s a month in Long Beach.

FOX MARGINS PLEASE ANALYSTS BUT CABLE INVESTMENTS AND UK NEWSPAPERS WEIGH HEAVILY

News Corp's titanic year still leaves some ripples


News Corporation buoyed by Titanic success



Source: FT Extel; Reuters. Years ending Jun 30 * before exceptionals

By Richard Waters in New York and Gwen Robinson in Canberra

Will News Corp's forthcoming sale of a stake in its film and television businesses be the high-water mark in its fortunes in the current business cycle, or is Rupert Murdoch's media and entertainment group finally about to deliver the sort of sustained earnings growth that has eluded it in the past?

To judge from earnings released late on Wednesday, a wide range of its activities, from making movies to putting advertising inserts into magazines, are firing on all cylinders. That was enough to draw rave reviews from some analysts, while giving a lift to its shares after their recent dip.

However, with its heavy dependence on the cyclical advertising markets in the US and UK, the caution that has hung over its stock price may continue to linger – a situation that has not been aided by the uncertainty created by Mr Murdoch's pending divorce.

During the final quarter of its latest financial year, at least, a number of News Corp's businesses seem to have performed better than most observers had expected.

The growth of its television operations in the US, the core of its activities there, continued to outpace the rest of the industry, with the Fox network reinforcing its position with the young adult viewers prized by advertisers.

"The numbers were excellent. The TV stations gained market share, and their margins are improving," said Ms Jessica Reif, entertainment industry analyst at Merrill Lynch. Those gains in part reflect the turnaround of a group of stations bought last year from New World.

According to David DeVoe, News Corp's chief financial officer, the profit margins at these stations have been lifted from "the low 30s" to above 40 per cent. That bears comparison with the best-run stations in the US, though there is still scope for improvement, said Ms Reif.

The company's latest figures were also bolstered by the success of *Titanic* with a worldwide box office of $1.8bn. The traditionally volatile nature of profits from the movie business has left its mark on some analysts, prompting caution about whether such earnings can be repeated.

Fans like Ms Reif, however, maintain that such profits are "very, very sustainable," thanks to the expected profits from the release on video of a batch of movies, which include *Titanic*, and from syndication of television programmes.

These bright points, however, are tempered by other News Corp operations: its newspaper activities and heavy investment in cable and satellite television operations.

The company's four UK newspapers produced earnings last year unchanged from a year before, despite an increase in revenues of 5 to 6 per cent. Most of the extra income was poured back into trying to raise readership, yet the Sun still saw its circulation fall from 3.9m to 3.7m and the Times is still not in profit.

"The concern for News Corp's newspaper operations is that they are now having to spend money in the UK just to maintain market share," said one Melbourne-based analyst. "In Australia, the business is growing, but the cycle will work against them, with further slowing of the economy next year."

Despite the higher spending on winning readers, the risk of a renewed price war in the UK newspaper industry remains slight, say some analysts. With the pending sale of minority stake in the Fox business, News Corp is unlikely to have the appetite for the sort of hit to its earnings that such a war would bring, said Steven Barlow of Credit Suisse First Boston in New York.

The company is also facing heavy costs in developing businesses, such as Fox News Channel. The investments wiped $200m from earnings last year, said Mr DeVoe. In addition, investment by BSkyB, the UK satellite broadcaster in which News Corp has a minority stake, cut earnings from associated businesses.

Cendant to seek change in ABI purchase terms

By Richard Waters in New York

Cendant, the US direct marketing and franchising group, is to seek a change in the terms of its $3.1bn acquisition of American Bankers Insurance following a collapse in its share price after a devastating accounting fraud, the US company's chief executive said yesterday.

Henry Silverman told the Financial Times a renegotiation of the terms would depend in part on willingness of insurance regulators to accept the use of more debt, rather than equity, in the transaction.

However, asked whether such a change would benefit the two companies, he said: "Our shareholders certainly think so – and their shareholders think so too." Mr Silverman's comments came as Cendant sought to put the accounting fraud behind it with a restatement of its previous earnings. Cendant cut its reported 1997 earnings by $332m to reflect fictitious profits created at CUC, the company which merged with HFS to form Cendant. The adjustment was in line with a projection given by the company.

Cendant said it had reduced by $457m the restructuring charge CUC had taken to cover expected costs stemming from the merger with HFS. "We could not find appropriate documentation" to justify the charge, Mr Silverman said.

Such merger-related charges, which are taken to cover expected job cuts or other costs, have been a common feature of the US merger and acquisition boom in recent years, causing concern among some accounting and securities regulators.

By inflating the scale of restructuring or other charges, a company may effectively create a "hidden reserve" that can be used to bolster future earnings – the accusations alleged at the former CUC.

News of the accounting problems saw a collapse in Cendant's stock – from a high of $41⅝ in March when the company launched its cash-and-stock offer for ABI. The shares stood at $17 yesterday, an increase of $⅜ on the day.

Cendant also yesterday announced a 44 per cent rise in underlying earnings per share for its most recent quarter, ahead of Wall Street's expectations. After-tax profits rose to $202m, or 23 cents a share, after a 28 per cent advance in revenues, to $1.3bn.

Daimler to build its M-Class vehicle at factory in Austria

By Haig Simonian in Tuscaloosa, Alabama

Daimler-Benz yesterday revealed plans to build its M-Class sports utility vehicle at an Austrian plant with close links to its newly merged US partner Chrysler.

The Mercedes-Benz vehicles subsidiary of the German group has faced sell-out demand for the M-Class, which went into production at a new US plant in Alabama last year. The Austrian output, to be finalised next month, should help to cut long waiting lists in the US and Europe.

The additional vehicles will be built under contract at a factory in Graz owned by Steyr-Daimler-Puch, the former state-owned engineering group now controlled by Magna of Canada.

SDP also builds vehicles for Chrysler at other facilities in Graz. Although the deal with Mercedes-Benz had been under negotiation before the group's takeover of Chrysler, it is believed to have been facilitated by the merger.

Linda Paulmeno, head of communications for Mercedes-Benz manufacturing in the US, said Daimler and Chrysler planned to work together in logistics and materials purchasing for the Austrian-built vehicles.

The Tuscaloosa factory has built more than 60,000 M-Class vehicles since January 1997. Capacity at the $300m factory has just been expanded from 65,000 units a year to 80,000 after a $40m added investment. The Austrian deal will lift production by 30,000 units a year from about mid-1999.

Mercedes-Benz has long links with SDP stretching back to 1979. The Austrian group builds its off-road Gelandewagen and four-wheel drive versions of its E-Class range.

Renault production shift, Page 14

INFORMATION TECHNOLOGY US GROUP'S ACQUISITION WILL BE THE LARGEST FOREIGN PURCHASE OF AN ISRAELI COMPANY

Platinum buys Memco in $520m share deal

By Avi Machlis in Jerusalem and Nikki Tait in Chicago

Platinum Technology, the US information technology company, yesterday agreed to pay $520m for Memco Software, a small Israeli network security company which last year reported revenues of just $30m.

It is the latest in a wave of foreign acquisitions of small Israeli IT firms. If completed, it will be the biggest foreign purchase of an Israeli group.

For the highly-acquisitive Platinum, the target is the largest of the more than 70 companies it has bought in the past four years in a campaign to turn itself from a pure software provider into a service and systems management supplier.

However, it said yesterday it believed that a security software provider was "clearly something we need".

Platinum had already been selling a security product based on Memco software, having been an original investor in the Israeli company. At one stage, the US group's stake in Memco was as high as 19 per cent, but dropped back to about 5.4 per cent. It admitted yesterday that it had found itself competing increasingly with Memco.

"It began to make sense to join forces in a much more integrated way and to really try and take the market by storm," said Scott Lenga, Memco's vice-president of business development.

Memco's main product, known as SeOS (Security for Open Systems) secures information on computer servers that lies "behind" firewalls, which protect networks from external intruders. For example, the system helps prevent internal corporate espionage and can keep high-ranking system administrators from using their access privileges to read other people's e-mail.

According to a recent report by Elan Zivotofsky, Israel technology analyst for Goldman Sachs, Memco faces "virtually no competition" for its technology and "has emerged as a global leader" in its niche.

Mr Zivotofsky estimated that Memco's earnings would grow at about 40-45 per cent a year. Memco's net income tripled from $3m in 1996 to $9m last year. Revenues doubled to $30m over the same period.

Platinum will pay for the deal through an exchange of 0.536 shares of its common stock for each Memco share. This values Memco at $25 a share, or about 19 per cent above yesterday's opening price of $21⅞. Memco's shares were up to $22 in early trading in New York.

But Platinum fell almost 10 per cent, as Wall Street fretted about the amount of stock being issued to fund the deal. By lunchtime, they were down $3 at $27⅝.

Engineering, telecoms lift Mannesmann

By Ralph Atkins in Bonn

Mannesmann, the Dusseldorf-based industrial conglomerate, lifted first-half pre-tax profits 75 per cent to DM1.14bn ($642m) through a strong revival in its engineering businesses adding to already-fast earnings growth from telecommunications.

Confirming its place as one of Germany's strongest new telecoms operators, Mannesmann reported a DM184m increase in operating profits from the business, to DM657m.

Mannesmann Mobilfunk, which operates Germany's D2 digital mobile network, lifted profits from DM792m to DM1.069bn. That was offset by start-up losses of DM199m at Mannesmann Arcor, the fixed-line business, while Eurokom, which has responsibility for foreign telecoms ventures, lost DM173m.

Mannesmann said Arcor – one of the first telecoms companies on the market after full liberalisation took effect on January 1 – was now handling 8.5m minutes of conversation daily and "the volume rose continuously through the first half year".

Turnover at Arcor rose 72 per cent to DM803m in the first six months.

On its international telecoms activities, which include stakes in Cegetel in France and Omnitel Pronto Italia and Infostrada in Italy, Mannesmann said increased start-up losses this year would be more than offset by a higher profit contribution from Mannesmann D2.

However, Mannesmann – known for its steel tubes business – pointed out that its profits recovery was broadly-based.

The group's first-ever half-year divisional breakdown showed engineering activities increased operating profits by DM182m per cent to DM240m.

However Demag, the heavy engineering contractor, continued to report losses, although down to DM78m from DM124m last time. In the automotive division, profits were up DM70m to DM226m. The "tubes and trading" activities, lifted profits by DM38m per cent to DM79m.

Total sales reached DM31.13bn, an increase of 22 per cent. After-tax earnings were up 42 per cent at DM443m. Mannesmann said it expected profits on ordinary activities for the full year to be "significantly better" than in 1997.

The Crillon hotel in Paris: one of the assets of the Société du Louvre, where the Taittinger family has 50 per cent voting rights Corbis

Edelman checks out hotels group

By David Owen in Paris

Twelve years after he took over the Ponderosa chain of steak restaurants, Asher Edelman's appetites have become distinctly grander.

The New York-based investor acknowledged this week that he wants to take control of Société du Louvre, the French hotels, luxury goods and light industry group, whose assets include Baccarat crystal, Le Grand Véfour restaurant and the swanky Crillon hotel in Paris.

Funds controlled by Mr Edelman have accumulated an 11 per cent holding in the Paris-based company, giving him nearly 4 per cent of the voting rights. The problem is, the target appears to be firmly in the hands of the Taittinger family, best known for its champagne business, which in effect controls more than 50 per cent of the voting rights.

A declaration sent by the Edelman funds to the Conseil des Marchés Financiers, the stock market authority, acknowledged that "the composition and situation" of the company's shareholders had not so far permitted the takeover to take place.

The funds, therefore, intend to pursue their policy of buying and/or selling shares in the company day by day, according to the state of the market.

The declaration also says the funds want to be represented on the Société du Louvre board and mean to pursue their "support for the company's recovery policy while at the same time exercising their right of control and constructive criticism of management should this be necessary".

So Mr Edelman's next move is far from clear, even if Claude Taittinger, chairman of the Taittinger group, suggests there has been a "change of attitude".

"Mr Edelman no longer seems to me to be talking like a man ready to launch a takeover but like someone who is disposed to be a faithful shareholder and to make constructive criticism," Mr Taittinger said.

Mr Edelman himself suggested yesterday that if nothing else, his move had encouraged the family to focus more on shareholder value. The shares, which have risen strongly in recent months, had been a "compelling" purchase because the company was very undervalued, he said. The US investor became one of the best-known arbitrageurs of the 1980s, building stakes in companies as varied as Fruehauf, the US truck trailer manufacturer; Morse Shoe; and Lonrho, the trading group; and Storehouse, the UK retail company.

Aegon surges 45% in first half

By Jeremy Gray in Amsterdam

A big US acquisition, favourable exchange rates and solid core growth lifted Aegon, the Netherlands' second-biggest insurer, to a 45 per cent rise in first-half net profits.

The group said yesterday the planned sale of a key banking unit would ensure a 25 per cent rise for the full year.

Total net income for the six months was Fl 1.31bn ($655m), up from Fl 906m. Stripping out the effect of acquisitions and currency fluctuations, earnings were still ahead 19 per cent.

Last year's acquisition of Providian, the US insurer, contributed 16 per cent to the increase in earnings per share. Premium income climbed 34 per cent to Fl 18.5bn.

"By the end of this year Aegon will show higher organic growth," said Kees Storm, chairman.

He said the insurer would continue to focus on life assurance and pension and related financial services. "We are putting great effort into expanding these activities in all group units, especially as we have now taken the steps to divest non-core banking units," he added.

Aegon sold its FGH Bank subsidiary earlier this year, and then its Labouchère bank unit to the Dutch financial group AOT. The second sale would result in a book profit of Fl 1bn in the second half, Mr Storm said.

He said the company was looking "very carefully" at expanding in Asia, which accounts for just 1 per cent of earnings at the moment.

However, he said the chances of meeting the company's criteria for acquisitions – an 11 per cent return on operations – would be met more easily elsewhere. "I can't rule out an acquisition in the US, but also in Spain, central Europe and Scandinavia," he added.

Mr Storm said a joint venture with ABN Amro would be "fantastic" but the Dutch bank had not responded to Aegon's overtures.

The shares closed up 2.7 per cent at Fl 182.50.

Renault in plan to shift production

By David Owen

Renault, the French carmaker, is to concentrate production of three models – the Laguna, the Safrane and the Espace – at a single northern French site as part of a drive to cut costs.

Louis Schweitzer, chairman, was quoted by Le Journal des Finances as saying the three models would eventually be "built from the same platform and in the sole factory of Sandouville", near the port of Le Havre.

The plan heralds the end of Espace construction at the Matra Automobile factory at Romorantin in central France, where the vehicle has been built since its launch in 1984. It is understood Espace production is likely to end at the site in about 2002.

A month ago, Mr Schweitzer and Philippe Guédon, chairman of Matra Automobile, a unit of Lagardère, the defence and publishing group, signed an agreement to develop and market a new top-of-the-range vehicle that Renault said would enlarge its range.

Renault said at the time the vehicle would be built at Romorantin, adding that the factory "produces and will continue to produce" the Espace.

Mr Schweitzer also said Renault was expecting to participate in the privatisation of Dacia, the Romanian carmaker. "We think there could be an interest in owning a cheap marque associated with Renault," he said.

He said the Scénic, another innovative and highly successful monospace, was being produced at the rate of 1,450 vehicles a day, against initial marketing projections of 400.

See Observer

Hungary write-off deepens CME loss

By Kevin Done, East Europe Correspondent

Losses at Central European Media Enterprises (CME), the leading commercial television operator in eastern Europe, widened to $28.6m in the second quarter from $6.8m last time, after a heavy write-off on its operations in Hungary.

CME, controlled by Ronald Lauder, one of the heirs to the Estée Lauder cosmetics fortune, warned it was freezing further investment in Poland pending negotiations on restructuring with its local partner, ITI Holdings.

It also said it expected to make further write-downs on its assets in Hungary of up to $15.6m, half of which would be charged in the second half and the balance next year and in 2000.

In the second quarter, it was forced to take a total write-off of $16.9m in Hungary: $11m of the value of its programme library and $5.9m of goodwill.

The write-offs follow the group's failure last year to win a national broadcasting licence in Hungary or negotiate a partnership with either of the winning consortia, led by Scandinavian Broadcasting System and CLT-Ufa.

In Poland CME is locked in tough negotiations with its local partner over the future direction of the TVN Network, which was launched last autumn at heavy cost and has failed to attract the promised audiences.

"We are taking a hard look at TVN's situation and prospects," said Michel Delloye, CME chief executive.

CME's shares have plunged on the Nasdaq market in the US, to a low of $17 last week from a peak of $37 in January last year. It was trading yesterday at about $18.25.

Dragados seeks foreign link after merger collapse

By David White in Madrid

Dragados, the Spanish construction group, is exploring the possibility of an international partnership after the collapse of a domestic merger which would have created one of Europe's biggest contractors.

Senior managers at Dragados are working through the summer holidays on an urgent search for an alternative plan to create a world-league grouping.

The company is expected to seek ties with a big foreign partner following the collapse of talks last week between its main shareholder, Banco Central Hispano and FCC, the other leading Spanish construction and services group.

Meanwhile, the French utilities group Vivendi – the former Générale des Eaux – is now widely seen as a candidate to take up the stake being offered in FCC by its controlling shareholder, Esther Koplowitz.

BCH, which recently lifted its holding in Dragados to 23.5 per cent, had been negotiating to build a significant presence in FCC and move towards a merger between the two contractors. A merged group would have had annual turnover of around Pta1,000bn ($6.64bn).

It promoted a link between Dragados and FCC two years ago, with the formation of two joint ventures to handle international contracts. These ventures are now to be disbanded as the parent groups go different ways.

The two groups are also due to unbundle their cross-shareholdings. FCC holds 6 per cent of Dragados, worth about Pta14bn, and BCH and Dragados each have about 3 per cent of FCC, jointly worth about Pta26bn.

The change of plan follows months of talks over the 28 per cent FCC stake formerly held by Alicia, Esther Koplowitz's sister. After finally buying the stake herself for Pta136bn, Esther, who already held 28 per cent, made clear last month she was looking to sell the shares on.

Apart from Vivendi, the Spanish groups Acciona and Ferrovial are also contenders for the FCC holding.

The privately-owned Ferrovial originally envisaged linking with Dragados, but its ambitions were frustrated when the latter moved instead, under BCH's impetus, to pool its international business with FCC. Its chairman, Rafael del Pino, withdrew as a shareholder and board member of BCH as a result.

BCH is intent on giving Dragados sufficient dimension to compete for prime international contracts. Its plans for a Dragados-FCC conglomerate would have been the culminating point in a series of mergers and takeovers within the Spanish construction industry.

NEWS DIGEST

NORWAY

Aker RGI advances 47% at midway

Aker RGI, the Norwegian conglomerate controlled by entrepreneur Kjell Inge Roekke, yesterday reported a 47 per cent rise in first-half profits following sharply increased contributions from shipbuilding and offshore engineering activities, and reduced losses in seafood production. The holding company, where Mr Roekke recently increased his stake from 40 per cent to more than 65 per cent, reported pre-tax profits up from NKr284m to NKr418m ($55m) in the first six months of the year as sales increased from NKr12bn to NKr16bn.

Aker said the improvement had been fuelled mainly by growth in Aker Maritime, its majority-owned oil and gas technology business, where operating profits rose from NKr96m to NKr415m, Scancem, the cement and building materials business, also contributed some NKr600m, up from NKr445m. "Aker Maritime shows solid growth in both revenues and profit, reporting higher profits in all business areas. Scancem also continues its positive development from 1997," the company said.

Profits in those areas offset losses in other areas such as Norway Seafoods, although it reported a sharply reduced deficit of NKr19m – compared with operating losses of NKr129m last time. In seafoods, the group was held back by pricing pressures and costlier raw materials associated with Asia's economic crisis. The absence of restructuring costs and one-off items incurred in 1997 helped transform last year's first-half operating loss of NKr237m into a NKr473m profit. It did not release figures for earnings per share. Tim Burt, Stockholm

SWEDEN

Defence products aid Celsius

Celsius, the state-controlled Swedish defence group, yesterday reported sharply improved first half profits amid strong demand for its defence products and commercial aviation services. The partly-privatised company saw pre-tax profits increase to SKr259m ($33m), up from SKr159m, on sales ahead from SKr5.22bn to SKr5.99bn. Lars Josefsson, chief executive, attributed the growth to Swedish military orders for new ammunition and weapons systems and increased maintenance activities on the civil aerospace side. That helped lift operating profits from SKr88m to SKr274m in the six months to June 30.

For the full-year, Mr Josefsson predicted net income of more than SKr500m, more than double the SKr207m achieved in 1997.

He also vowed to press ahead with the group's strategy of focusing on defence activities, with further co-operation deals with international competitors. In the past week, Celsius has signed a technology-sharing deal with France's state-run DCN shipyards covering conventional submarines, and a missile joint venture with Daimler-Benz Aerospace of Germany. In the first half, it underlined that strategy by announcing plans to form a joint Nordic ammunition company with Patria Industries of Finland and Raufoss of Norway. In Stockholm, Celsius's most commonly traded B shares rose SKr1 to SKr181. Tim Burt

ENTERTAINMENT

Lévy in talks with EMI

Alain Lévy, former president of PolyGram, the Dutch entertainment group, is understood to have met with Sir Colin Southgate, chairman of EMI, the UK music group which is considering making a bid for PolyGram's film and television subsidiary. EMI declined to comment. However it is believed that the two men discussed the forthcoming sale of the film business when they met recently at EMI's London headquarters, but Sir Colin did not offer Mr Lévy a formal role at the company if EMI was to acquire it.

As Europe's largest film producer and distributor, PolyGram Filmed Entertainment (PFE) has backed a string of box office hits. It was put up for sale following the $10.4bn bid for PolyGram by Seagram, the Canadian entertainment group. Mr Lévy left PolyGram after the bid was agreed.

EMI, which held unsuccessful takeover talks with Seagram before the latter bid for PolyGram, is one of a dozen companies that made preliminary offers for PFE. It is now deciding whether to make a final bid by the mid-September deadline. EMI has previously pursued a strategy of focusing on its music interests, and Sir Colin would need to secure the agreement of his board, which is dominated by non-executive directors, before making a final offer. Alice Rawsthorn

ELECTRONICS

Tadiran ahead 28%

Tadiran, Israel's biggest electronics group, said yesterday net income in the first half climbed 28 per cent, as the company widened its client base to reduce dependency on big customers. Net income climbed from US$29.6m, or $1.51 a share, to $37.7m, or $1.91. This was in spite of only a slight rise, from $570.5m to $576.5m, in sales. Exports accounted for 57 per cent of sales. The results for Tadiran, a subsidiary of Koor Industries, Israel's biggest holding company, came as M. A. Industries, Koor's generic agrochemicals subsidiary, reported a 2 per cent rise in net income for the half. Net income at M. A. Industries climbed from $29.6m last time to $30.3m. Revenues were up 5 per cent, from $355m to $374m. M. A. Industries is the merged company formed earlier this year which includes Makhteshim and Agan. Avi Machlis, Jerusalem

BANKING

Lyonnais retains two advisers

Crédit Lyonnais, the French state-owned bank, has retained two advisers for the sale of its Belgian subsidiary, with the aim of completing the disposal by the end of the year. The bank, under obligation to sell many non-French assets in exchange for a French state rescue plan, has appointed Rothschild et Cie in Paris and Banque Degroof in Belgium. Crédit Lyonnais Belgium, which employs nearly 1,000 people, reported a 1997 net profit of BFr1bn ($27.3m) and had assets of BFr498bn. David Owen, Paris

NATURAL DISASTER MORE THAN 1,000 OIL WELLS CLOSED DUE TO WATERLOGGING AS VEHICLE AND CEMENT PLANTS CEASE OPERATING

China floods lead to industry shutdowns

By James Harding in Shanghai

Flooding is taking its toll on corporate China, as the country's largest oilfield and several large companies announced yesterday that they had closed operations inundated by water.

More than 1,000 wells have shut down in the Daqing oilfield, which produces roughly one-third of China's petroleum, as a result of waterlogging caused by the flooding and torrential rains.

China's official news agency reported yesterday that more than 3,000 oil workers and 40,000 local people in north-eastern China had rushed to reinforce the damaged embankments of a nearby river.

"The wells had become waterlogged after 10 days of constant heavy rains," said an official quoted by Reuters news agency.

Another industrial company in the Yangtze valley reported disruption to its production yesterday, a consequence of the surge in the water level which this year has risen to its highest mark since 1954.

Hubei Axles, which makes agricultural vehicles in the province of Hubei, sitting on the central stretch of the Yangtze most affected by the flooding, said it had shut two factories and moved equipment and staff because of the flooding.

The company said the two factories, which account for 29.5 per cent of its net assets, were closed last week.

"The plants are in a flood diversion zone and under government orders we were required to move them away after the water level reached a certain point," the company said.

On Wednesday, Huaxin Cement, which is based in the same province as the agricultural machinery producer, said cement production had been disrupted by the crisis in the Yangtze river valley.

The flooding had blocked shipments of its products and pushed up the price of sand, which is used to produce cement. "The floods and heavy rains have caused around RMB20m ($2.4m) in losses for our company," it said.

A boat bearing flood control volunteers sails past a Bank of China branch in Jiujiang BOBBY YIP

New World Development, the Hong Kong-based infrastructure and property developer, said flooding around the industrial hub of Wuhan in central China hit an expressway, department store and hotel in which it had invested.

China's largest insurance company, the People's Insurance Company of China, has already paid out more than RMB400m for losses caused by the flooding, a report in the official Financial News said yesterday.

The statement was one of the first indications of the cost that the domestic insurance industry is likely to have to shoulder as a result of the natural disaster.

The floods have already claimed more than 2,000 lives, caused damage estimated at more than $5bn and shaved about half a percentage point off economic growth.

S&P intervenes in Tenaga payments dispute

By Peter Montagnon, Asia Editor

Standard and Poor's, the US credit rating agency, has weighed into a dispute between Tenaga Nasional and Malaysia's independent generators over the electricity utility's ability to meet contractually agreed payments for power.

S&P yesterday said that Tenaga "has adequate cash to make its payments in full to lenders and independent power producers over the near term".

Its intervention, which will come as a boost to the six producers that supply Tenaga, was provoked by a spate of negative comment in the Malaysian press this week following warnings about Tenaga's cashflow strains from Ahmad Tajuddin Ali, its executive chairman.

On Monday, Mr Tajuddin called on the producers to offer discounts on the power they sell, saying that if Tenaga "were to drown", the producers would also drown.

Mr Tajuddin said one third of Tenaga's operating expenditure went to paying the power producers, while the company was facing sharply higher debt-service requirements on its overseas debt as a result of the depreciation of the ringgit.

Tenaga has had to meet these bills while maintaining its pledge, renewed this week, not to raise tariffs to consumers until at least the end of 1999.

The downturn in the economy had also reduced demand for electricity with demand currently down to about 7,750MW from 8,466MW in May last year before the crisis hit, Mr Tajuddin said.

S&P said yesterday it still expected Tenaga to generate a moderate cash-flow surplus this year and pointed out that the company's access to the debt market remained sound, as evidenced by its M$1bn domestic bond issue earlier this year.

But it said Tenaga's local and foreign-currency debt rating remained on negative outlook and acknowledged that Tenaga faced longer-term pressures as a result of the economic crisis, which would curb growth in electricity demand from 12 per cent to 4 per cent.

Tenaga, which lost M$1.9bn (US$452m) during the first half of the current year, has been seeking to cut its capital expenditure to take account of expected lower demand. Capital spending in the next financial year is to be held at M$4bn through the cancellation or deferral of non-essential projects.

Meanwhile, the power generators said they remained unwilling to renegotiate power purchase agreements but were "willing to discuss solutions to assist Tenaga for the good of the industry".

S&P currently rates Tenaga's foreign debt at BBB+, well within investment grade, while its local currency debt is rated A-.

NEWS DIGEST

ELECTRONICS

South Korean groups report mixed results

Samsung Electronics, the world's largest memory chipmaker, yesterday reported that first-half net earnings rose 22 per cent to Won150.1bn ($113m) in spite of a fall in global prices for its main product. Sales climbed 18 per cent to Won10,530bn.

Analysts said Samsung benefited from stronger sales of telecoms equipment, although its semiconductor and consumer electronics divisions were weak. Earnings from exports also boosted profits, owing to the weakness of the Korean currency against the dollar. Exports accounted for 70 per cent of sales in the first half.

LG Electronics, a leading manufacturer of consumer electronics, reported that net profits fell by 7.5 per cent to Won101.3bn, although sales were ahead 22 per cent to Won5,380bn. LG blamed the lower earnings on higher foreign debt payments because of currency depreciation and weak demand in the domestic market, with a 28 per cent fall in sales to Won1,380bn. However, exports jumped 61 per cent to Won4,000bn, as a result of the weak currency.

■ Interim net profits at **Daewoo Heavy Industries**, the South Korean shipbuilding and heavy machinery group, rose from Won37.7bn in the first half last year to Won102.1bn this time. The company said foreign-exchange translation gains and a strong performance in the shipbuilding sector contributed to the increase.

Sales rose 12 per cent to Won3,190bn.

John Burton, Seoul

SEMICONDUCTORS

Thai manufacturer ahead

Hana Microelectronics, the Thai semiconductor maker, yesterday reported higher second-quarter profits and said it was weathering the Asian financial turmoil better than most groups. However, the group was not optimistic about the second half of the year.

Hana posted profits of Bt301.5m ($7.2m) in the second quarter compared with Bt82.6m a year earlier. First-half profits were Bt659m against Bt183.3m.

"We're riding the Asian downturn," said Richard Han, chief executive. "Things aren't rosy, but we're well positioned."

Some analysts have predicted a decline in worldwide semiconductor sales of 5-10 per cent this year.

AP-DJ, Bangkok

Commodity falls depress Fletcher

By Terry Hall in Wellington

Sharp falls in commodity prices set back full-year earnings for New Zealand's Fletcher Challenge group of companies. The forestry and paper divisions reported losses, and earnings at the energy division fell sharply, while the building group showed a more modest fall in profits.

Consolidated net earnings for the parent, Fletcher Challenge, were NZ$260m (US$131m), down from NZ$458m last year. Extraordinary items represented a loss of NZ$67m. The main items included were a cash gain of NZ$264m from the sale of Blandin Paper in the US; non-cash writed-owns of NZ$164m on UK Paper; and NZ$33m on the investment in the Central North Island Forest Partnership.

Fletcher Energy reported a 64 per cent drop in net profit to NZ$112m, mainly due to lower oil prices.

The sharp downturn in earnings from Asia were blamed for Fletcher Forests' net loss after tax of NZ$15m, compared with a profit of NZ$153m last year which included NZ$84m from forest sales.

Paul Fowler, chief executive, said the downturn in Asia outweighed growth in sales to other markets, cost savings and lower processing costs.

Fletcher Paper reported an after-tax loss of NZ$45m, compared with a NZ$385m loss last year, mainly because of a nine-month strike at its Canadian plants, continuing losses by UK Paper, reduced demand from Asia and higher export volumes from rival Asian producers. The group made a further NZ$164m provision for its UK paper operations, following a NZ$400m write-down last year.

Fletcher Building reported a tax-paid profit of NZ$134m, compared with NZ$146m. Executives said operating earnings had risen as demand for materials reached record levels. However, this was offset by falling returns from steel.

Hongkong Electric down 8.5%

Hongkong Electric, the monopoly electricity supplier on Hong Kong Island, yesterday reported an 8.5 per cent decline in interim net profits, from HK$2.09bn in the 1997 first half to HK$1.91bn (US$246m) this time, writes Louise Lucas in Hong Kong.

The reduction was caused chiefly by the minimal contribution from the group's property development associate, Secan. Profits from the core electricity business rose 5.5 per cent, the group said.

The Asian financial crisis and domestic economic slowdown appear to have left the electricity business largely untouched. Electricity unit sales grew 7.7 per cent as more commercial buildings came on stream on Hong Kong Island.

George Magnus, chairman, said the group had "minimal exposure" to currency risks.

Earnings per share over the period fell 8.7 per cent, from 103 cents to 94 cents, but the interim dividend is to be lifted 5.9 per cent, from 50.5 cents to 53.5 cents.

Hemaraj Land and Development Public Company Limited

Notice of a Meeting (the "First Meeting") of the holders of the outstanding U.S.$60,000,000 3½ per cent. Convertible Bonds due 2003 of Hemaraj Land and Development Public Company Limited

(the "Company")

NOTICE IS HEREBY GIVEN that a Meeting of the holders of the above Bonds (the "Bondholders") will be held at the offices of the Company at 18th Floor, UM Tower, 9 Ramkhamhaeng Road, Suanluang, Bangkok 10250, Thailand on Monday, 7th September, 1998 at 2 p.m. (Bangkok time) for the purpose of considering and, if thought fit, passing the following Resolution which will be proposed as an Extraordinary Resolution in accordance with the provisions of the Trust Deed (the "Trust Deed") dated 9th September, 1993 made between the Company and The Law Debenture Trust Corporation p.l.c. (the "Trustee") as trustee for the Bondholders.

EXTRAORDINARY RESOLUTION

"THAT this Meeting of the holders of the outstanding U.S.$60,000,000 3½ per cent. Convertible Bonds due 2003 (the "Bonds") of Hemaraj Land and Development Public Company Limited (the "Company") constituted by the Trust Deed dated 9th September, 1993 (the "Trust Deed") made between the Company and The Law Debenture Trust Corporation p.l.c. (the "Trustee") as trustee for the holders of the Bonds (the "Bondholders") hereby:

(i) assents to the modification of Condition 5 of the Terms and Conditions of the Bonds by the deletion of the wording, "Interest is payable annually in arrear on 9th September in each year (each an "Interest Payment Date")," and the insertion of the following in its place:
"Interest is payable annually in arrear on 9th September in each year up to and including 9th September, 1997 and thereafter on 9th January, 1999 (in respect of the period from 9th September, 1997 to 8th January, 1999 inclusive) and on 9th September, 1999 (in respect of the period from 9th January, 1999 to 8th September, 1999 inclusive) and thereafter on 9th September in each year up to and including 9th September, 2003 (each an "Interest Payment Date").";

(ii) requests the Trustee to enter into a Supplemental Trust Deed in such form as the Trustee shall approve to effect the modification in (i) above; and

(iii) discharges and exonerates the Trustee from any liability to Bondholders in respect of acting in accordance with the request in (ii) above."

The attention of Bondholders is particularly drawn to the quorum required for each Meeting and for an adjourned Meeting which is set out in paragraph 5 of "Voting and Quorum" below.

In accordance with normal practice, the Trustee expresses no opinion on the merits of the Extraordinary Resolution.

Copies of the Trust Deed (including the Terms and Conditions of the Bonds) will be made available for inspection and an Explanatory Memorandum produced by the Company setting out the background and reasons for the Meeting, and forms of proxy referred to below will be available for collection, by Bondholders at the specified offices of the Principal Agent, Registrar and the Paying, Conversion and Transfer Agents during normal businesses hours.

Hemaraj Land and Development Public Company Limited

Notice of a Meeting (the "Second Meeting") of the holders of the outstanding U.S.$60,000,000 3½ per cent. Convertible Bonds due 2003 of Hemaraj Land and Development Public Company Limited

(the "Company")

NOTICE IS HEREBY GIVEN that a Meeting of the holders of the above Bonds (the "Bondholders") will be held at the offices of the Company at 18th floor, UM Tower, 9 Ramkhamhaeng Road, Suanluang, Bangkok 10250, Thailand on Monday, 7th September, 1998 at 2.30 p.m. (Bangkok time) or, if later, immediately following the Meeting of Bondholders convened for 2.00 p.m. on the same date for the purpose of considering and, if thought fit, passing the following Resolution which will be proposed as an Extraordinary Resolution in accordance with the provisions of the Trust Deed (the "Trust Deed") dated 9th September, 1993 made between the Company and The Law Debenture Trust Corporation p.l.c. (the "Trustee") as trustee for the Bondholders.

EXTRAORDINARY RESOLUTION

"THAT this Meeting of the holders of the outstanding U.S.$60,000,000 3½ per cent. Convertible Bonds due 2003 (the "Bonds") of Hemaraj Land and Development Public Company Limited (the "Company") constituted by the Trust Deed dated 9th September, 1993 (the "Trust Deed") made between the Company and The Law Debenture Trust Corporation p.l.c. (the "Trustee") as trustee for the holders of the Bonds (the "Bondholders") hereby:

(i) assents to the modification of Condition 8(C) of the Terms and Conditions of the Bonds by the deletion of the words "9th September, 1998 at 116.50 per cent. of its principal amount" and the insertion in its place of the words "9th January, 1999 at 116.50 per cent. of its principal amount together with interest accrued to that date";

(ii) requests the Trustee to enter into a Supplemental Trust Deed in such form as the Trustee shall approve to effect the modification in (i) above; and

(iii) discharges and exonerates the Trustee from any liability to Bondholders in respect of acting in accordance with the request in (ii) above."

The attention of Bondholders is particularly drawn to the quorum required for each Meeting and for an adjourned Meeting which is set out in paragraph 5 of "Voting and Quorum" below.

In accordance with normal practice, the Trustee expresses no opinion on the merits of the Extraordinary Resolution.

Copies of the Trust Deed (including the Terms and Conditions of the Bonds) will be made available for inspection and an Explanatory Memorandum produced by the Company setting out the background and reasons for the Meeting, and forms of proxy referred to below will be available for collection, by Bondholders at the specified offices of the Principal Agent, Registrar and the Paying, Conversion and Transfer Agents during normal businesses hours.

Barclays Nominees (Provincial) Limited ("Barclays") holds the Bonds as nominee for the Clearing Systems (described below) and has no beneficial interest in the Bonds.

NOTICE IS ALSO HEREBY GIVEN that if the Extraordinary Resolution to be considered at the Second Meeting is duly passed Bondholders who have exercised their option pursuant to Condition 8(C) to have their Bonds redeemed on 9th September, 1998 will be permitted to subsequently revoke the notices of redemption and withdraw Certificates deposited by giving notice in writing to the Company at the specified office of the Principal Agent or any Paying, Conversion and Transfer Agent during normal business hours on or before 9th November, 1998 and the Company will consent to any such revocation. The preceding sentence serves as the written consent, in advance, as required by Condition 8(C) of the Bonds for any such revocation.

VOTING AND QUORUM FOR THE FIRST MEETING AND THE SECOND MEETING

1. A holder of a Bond may, by executing and delivering a form of proxy in the English language to one of the offices specified below of the Principal Agent or the Paying, Conversion and Transfer Agents not less than 24 hours before the time fixed for the earlier of the two Meetings, appoint a proxy.
2. A holder of a Bond which is a corporation may by resolution in the English language of its directors or other governing body delivered to one of the offices specified below of the Principal Agent or the Paying, Conversion and Transfer Agents not less than 24 hours before the time fixed for the earlier of the two Meetings, appoint a person to act as its representative in connection with each Meeting. Barclays as registered holder of the Global Bond on behalf of the Clearing Systems (as defined below) is the only Bondholder for the purposes of paragraphs 1 and 2.
3. Those who hold their interests in Bonds through Cedel Bank, société anonyme or Morgan Guaranty Trust Company of New York as operator of the Euroclear System (each a "Clearing System") and who wish to attend and vote at the Meetings should contact the relevant Clearing System to make arrangements to be appointed as a proxy in respect of the Bonds in which they have an interest for the purposes of attending and voting at the Meetings.
4. Those who hold their interests in Bonds through a Clearing System and who wish to vote at but do not wish to attend the Meetings should contact the relevant Clearing System to arrange for another person to be appointed as a proxy in respect of the Bonds in which they have an interest to attend and vote at the Meetings on their behalf or to make arrangements for the votes relating to the Bonds in which they have an interest to be cast on their behalf by the Principal Agent acting as a proxy.
5. For the First Meeting, the quorum required is two or more persons present in person holding Bonds or being proxies or representatives and holding or representing in the aggregate not less than 66 per cent. in principal amount of the Bonds for the time being outstanding (as defined in the Trust Deed). For the Second Meeting, the quorum required is two or more persons present in person holding Bonds or being proxies or representatives and holding or representing in the aggregate over 50 per cent. in principal amount of the Bonds for the time being outstanding (defined as aforesaid). If within 15 minutes for the time fixed for either Meeting a quorum is not present the Meeting shall stand adjourned for such period, not being less than 14 days nor more than 42 days, and to such time and place, as may be appointed by the Chairman of the Meeting. At any adjourned First Meeting, the quorum required is two or more persons present in person holding Bonds or being proxies or representatives and holding or representing in the aggregate not less than 33 per cent. in principal amount of the Bonds for the time being outstanding. At any adjourned Second Meeting, the quorum shall be two or more persons present in person holding Bonds or being proxies or representatives whatever the principal amount of the Bonds so held or represented.
6. Every question submitted to each Meeting will be decided on a show of hands unless a poll is duly demanded by the Chairman of the relevant Meeting, the Company or the Trustee or by one or more persons holding one or more Bonds or being proxies or representatives and holding or representing in the aggregate not less than two per cent. in principal amount of the Bonds for the time outstanding. On a show of hands every person who is present in person and produces a Bond or is a proxy or representative shall have one vote. On a poll every person who is so present shall have one vote in respect of each Bond of U.S.$1,000 principal amount so produced or in respect of which he is a proxy or representative.
7. To be passed, each Extraordinary Resolution requires a majority in favour consisting of not less than three quarters of the votes cast. If passed, the Extraordinary Resolutions will be binding on all the Bondholders, whether or not present at such Meeting and whether or not voting.

For the purpose of these Meetings the Trustee has waived the deeming of notice to be given seven days after being mailed to the Bondholders and will treat this notice as having been given on the date of publication being 14th August, 1998.

PRINCIPAL AGENT	TRUSTEE	REGISTRAR
Citibank, N.A. Citibank House 336 Strand London WC2R1HB	The Law Debenture Trust Corporation p.l.c. Princes House 95 Gresham Street London EC2V 7LY	Citibank (Luxembourg) S.A. 16 Avenue Marie-Thérèse L-2132 Luxembourg

PAYING, CONVERSION AND TRANSFER AGENTS

Citibank, N.A. Avenue de Tervuren 249 B-1150 Brussels Belgium	Citibank (Luxembourg) S.A. 16 Avenue Marie-Thérèse L-2132 Luxembourg	Citibank, N.A. 13th Floor 120 Wall Street New York NY10043

14th August, 1998

FINANCE US BANK PAYS $274m FOR PORTFOLIO WORTH $585m AS BANGKOK SELLS OFF SEIZED ASSETS

Lehman buys Thai mortgages at sharp discount

By Ted Bardacke in Bangkok

Lehman Brothers, the US investment bank, yesterday agreed to purchase $585m worth of residential mortgages in Thailand for $274m in that country's latest auction of assets seized from liquidated finance companies.

The 53 per cent discount confirms concerns about the crisis in Thailand's property market, where a lack of transactions has made it difficult to determine market clearing prices. But the price also suggests that the Thai property market may have hit the bottom – many analysts had expected the 17,747 loans to fetch much less.

In June, GE Capital purchased $1.1bn worth of car hire-purchase loans for approximately $530m.

Yesterday's auction was the first by the Thai government's Financial Sector Restructuring Authority (FRA), which is conducting the sale of $21bn of finance company assets.

In July, Lehman acquired the Thai operations of Peregrine, the failed Hong Kong investment bank. Analysts expect it to use the Peregrine platform to provide customer service for the loans, although it could contract out that service and try to securitise the loans.

It is unclear how Lehman would take possession of foreclosed properties as foreigners are not allowed to own property in Thailand.

The FRA has been praised for the efficiency with which it is disposing of finance company assets but yesterday's announcement raised questions about fairness – Lehman is the FRA's principal financial adviser for the auction process.

The FRA said it was confident Lehman had not gained an unfair advantage via its advisory role because "the company's Chinese walls had held". Four other financial institutions submitted bids based on the same information, it said.

Lehman declined to comment on its plans for the loans or its dual interest in the FRA auction.

So far the FRA has sold loan portfolios worth Bt78.6bn ($1.8bn) for a total of Bt36.4bn. Other fixed assets have been sold for Bt16bn. Assets worth Bt470bn, comprising business and property loans, will be offered in several tranches from next month.

Proceeds from the auction will be distributed to creditors of 56 finance companies shut down last year.

Mexican group's US buy raises concerns

By Henry Tricks in Mexico City

The planned $355m purchase of Four M, the US paper group, by Mexico's Rincón family has raised fears of stock dilution and increased debt at the family's packaging company, Grupo Industrial Durango (Gidusa).

Analysts expressed concern about a possible pledge of Gidusa stock as the basis for raising a $100m loan to pay for the acquisition, saying there could be pressure on the price if the family had to sell.

There were also concerns a merger would raise Gidusa's debt ratios above levels agreed in covenants on two outstanding US bonds, requiring a potentially costly waiver from bondholders.

Standard and Poor's, the US credit rating agency, issued a warning on $400m of Gidusa debt, saying the move could weaken the company's financial profile, even if the merger was expected to strengthen its businesses.

However, Miguel Rincón, Gidusa chief executive, said the company might lower debt by selling $150m in non-core subsidiaries. He was also confident about renegotiating the covenants with bondholders.

Sebastien Chatel, analyst at Warburg Dillon Read, said the $355m price appeared high at almost nine times 1998 cash flow, especially with the paper industry in a worldwide slump.

But Mr Rincón said Four M's cash flow was expected to increase sharply following the purchase.

The family has agreed to buy Four M's debt and is financing the remainder of the transaction via a loan from NationsBank of the US and $40m cash.

It plans to merge Four M and Gidusa, of which the family is majority owner, in 1999 or 2000.

Concerns voiced on US bank merger

By Nikki Tait in Chicago

Community groups and activists yesterday disrupted hearings on the planned $22bn merger between Ohio-based Banc One and First Chicago NBD, forcing John McCoy, Banc One chairman, and Verne Istock, his counterpart at First Chicago, to flee for the elevators.

The hearings, at the Federal Reserve Bank of Chicago, form part of the approval process for the merger.

The Banc One/First Chicago deal has won general support on Wall Street, but generated a wave of concern at local level. The merged company would be the fifth largest bank in the US, the second biggest credit card issuer and the largest bank in the Midwest.

As well as the action by the activists, concerns over the merger were also expressed by civic leaders in a number of Midwest cities.

Scott King, mayor of Gary, the heavily-industrialised city in northern Indiana whose population is about 85 per cent African-American, hit out at the banks' past lending practices.

He said they "had not individually established an appropriate track-record" and that policies set at group level did not appear to filter down to local officials.

"It's not a matter of malice but lack of awareness ... In African-American communities, they do not have a good record," he said.

Hiawatha Davis, a local councilman from Denver, attacked Banc One, alleging that in 1996 it failed to process a single loan application from potential Hispanic or African-American borrowers.

Earlier in the hearings, both Mr Istock and Mr McCoy defended their respective banks' community lending policies – citing initiatives such as "micro lending" for small businesses, and inner city property-based developments.

Mr Istock also noted that the merger deal contained a relatively small bid premium and that the cost-savings target was a fairly modest $930m annually. "We don't have to do the extraordinary amount of cost-cutting" that some other deals have required suggesting that this made a civic/community role easier to maintain.

European banks chase the pack in US

Consolidation in securities has left Deutsche and Dresdner behind, says **Tracy Corrigan**

The advancing consolidation of the securities industry has left European banks that still harbour ambitions of global dominance even further behind. And they know it.

In recent months, both Deutsche Bank and Dresdner Bank, the two German banks that still have a chance of making the grade, have said they are considering buying a US business. On Tuesday, shares in PaineWebber, the US brokerage, rallied 7 per cent on the news that it had been in talks with Dresdner. The talks are believed to have been preliminary and informal, but could be resumed.

While Deutsche and UBS of Switzerland have been struggling for years to build their US operations, Dresdner has little more than a corporate banking business in the US. This is both a strength and a weakness. On the one hand, unlike Deutsche, which has ploughed vast sums of money into a struggling operation, Dresdner has a clean slate; on the other, it has little experience of the US.

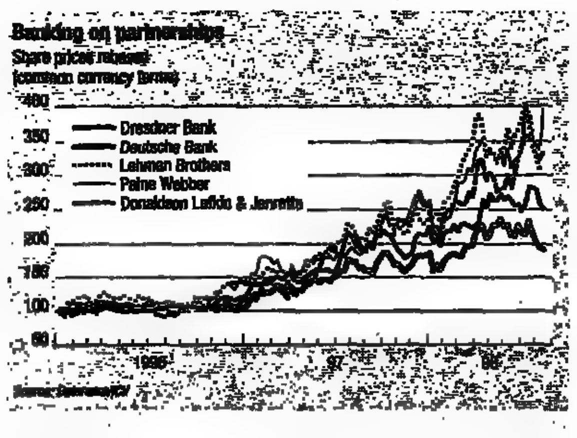
People familiar with the situation believe that Dresdner has probably talked to other potential targets. "My guess is that they are talking to everybody. The problem is that the universe of 'everybody' is getting much smaller," says one investment banking specialist.

A wave of transactions in the US market, which has seen the coupling of the likes of Salomon Brothers and Smith Barney, Bankers Trust and Alex Brown, has left aspiring buyers with few potential purchases.

PaineWebber is an obvious candidate: it has long been seen as a bid target, in part because analysts believe that mid-sized firms will find it difficult to survive. But the strategic logic for Dresdner is questionable.

Although it is is one of the leading retail brokerages in the US, PaineWebber's investment banking business is relatively small. "It depends what Dresdner wants. If they want distribution, it's a great buy. If they want origination and product, they should look elsewhere," says one analyst, who adds that a US investment banking franchise would be a better fit.

However, Art Soter, financial services analyst at Morgan Stanley Dean Witter, describes PaineWebber as "a pretty nice opportunity to tap into long-term savings growth ... and get an entrée into the affluent investor market".



All this begs the question of whether PaineWebber is for sale. Donald Marron, its chairman and chief executive, has repeatedly said it is not, and told the FT recently that he believes the firm has the right strategy in place to carry it well into the next century as an independent entity.

However, most analysts say that firms such as PaineWebber probably would have to sell if the price were high enough. "For PaineWebber to give up its independence, there would have to be something pretty extraordinary" on the table, says Mr Soter. This would imply a hefty price tag, since PaineWebber stock is currently trading at three times book value, around the industry average.

Lehman Brothers, which has enjoyed a recent resurgence in profitability, would be cheaper – it is trading at 1.6 times book – but is keen to retain its independence after emerging from a bruising period of ownership by American Express.

It is a similar story with other potential candidates. Donaldson, Lufkin & Jenrette, which has a strong investment banking business, is majority-owned by Axa-UAP of France, which does not want to sell.

The bottom line, according to Mr Soter, is that Dresdner or Deutsche, which are undoubtedly looking at the same candidates, would have to pay "a huge price at the top of the market".

From the sellers' point of view, investment bankers do not generally relish the idea of working for a company owned by a German bank, due to their shaky record in the securities markets. While chief executives of bid targets may be mindful of fiduciary duty to shareholders to extract the best price, some buyers – such as Chase Manhattan, which is also keen to acquire a US investment bank – may be more attractive than others.

So Deutsche and Dresdner – and UBS – face a conundrum. Making a worthwhile acquisition in the US is a tricky proposition. But if they do nothing – and UBS, newly created by mega-merger, is still integrating its own business – the gap between them and the global powers of Merrill Lynch, Morgan Stanley Dean Witter and Goldman Sachs could become unbridgeable.

GOLF PRODUCTS ASSET RULE NOT MET

Golden Bear to be delisted from Nasdaq

By John Labate in New York

Golden Bear Golf, the golf products company whose chairman and leading shareholder is golf legend Jack Nicklaus, said yesterday that Nasdaq is delisting the company on August 18. Nasdaq would not confirm the statement.

Jack Nicklaus: company also faces lawsuit Allsport

Golden Bear, which is based in West Palm Beach, Florida, said the move to delist its securities was based on Nasdaq's net tangible asset requirement.

The exchange requires companies trading in its market to maintain $4m in net tangible assets. Golden Bear confirmed its holdings in this area were below the $4m requirement.

The decision to delist comes one day after a class action lawsuit was launched against Golden Bear.

The complaint, alleging the company issued false and misleading financial statements, was filed on behalf of investors who purchased its shares between April 10 1997 and July 27 1998, when they were suspended from trading on Nasdaq.

The company has previously stated that evidence had been found that the one-time management of its Paragon Construction subsidiary had materially overstated the unit's revenues and profits. Paragon, a golf course construction company, was believed to account for 60 per cent of Golden Bear's revenues.

Golden Bear plans to restate its financial reports for 1997 and the second quarter of 1998, but did not say when those documents would be released.

Trading in its shares was halted in July pending a company announcement concerning its restated results.

Golden Bear shares began trading in August 1996 after its initial public offering. It reported a 102 per cent rise in 1997 revenues to $67.7m and a net loss of $2.9m.

Buoyant spending lifts US retailers

By Richard Tomkins in New York

A batch of US retailers saw strong increases in second-quarter earnings yesterday as buoyant consumer spending continued to lift sales and profit margins.

Gap, the company that owns The Gap, Banana Republic and Old Navy clothing chains, reported some of the best figures of the season so far, with sales up 42 per cent to $1.9bn and net profits up 97 per cent to $137m.

Part of the growth was attributable to store openings, which increased retail space by 22 per cent on a year ago. However, sales at existing stores rose 19 per cent as more customers paid full price for clothes rather than wait for markdowns.

US retailers – second-quarter results

	Company store sales 1998 $bn	Company store sales 1997 $bn	Net income/(loss) 1998 $m	Net income/(loss) 1997 $m
Wal-Mart Stores	33.52	28.39	1,034	795
Sears Roebuck	9.65	8.85	306	117
Kmart	8.12	7.88	80	31
Fed Dept Stores	3.52	3.46	197	87
May Dept Stores	2.82	2.66	131	116
Gap	1.90	1.35	137	69
Dillard's	1.80	1.45	46	44
[illegible]	0.61	0.46	(11)	(14)

Source: company reports

Kmart, the third biggest US retailer, continued to claw its way back from difficulties that took it to the brink of bankruptcy. It reported its ninth consecutive quarter of improved results.

Sales edged ahead 3 per cent to $8.12bn and net earnings rose from $31m to $80m, helped by better profit margins.

Earnings would have been $19m higher but for a charge relating to a voluntary early retirement programme.

The US retail sector, long bedevilled by overcapacity, has turned into one of the best performing sectors of the domestic economy, thanks to increases in consumer spending driven by low unemployment and rising wages.

With more customers coming into the stores, with more money in their pockets, retailers have been able to ease back on the heavy markdowns that have characterised the industry.

In addition, while other sectors have been hit by Asia's economic woes, US retailers have benefited from a strengthening dollar lowering the prices of imported goods.

Yesterday, the US Department of Commerce reported that total retail sales fell by 0.4 per cent in July. However, excluding automotive sales, which were hit by the General Motors strike, they rose by a higher than expected 0.5 per cent.

The retail sector is expected to remain buoyant in the second half, since there is little evidence yet of a decline in consumer spending.

Employment is still growing and a strong dollar is likely to keep import prices low.

However, there are concerns that further falls in the stock market could damp consumer confidence.

DuPont warns again on profits

By Tracy Corrigan in New York

DuPont, the US chemicals group, issued its third profits warning since early July, saying third-quarter earnings would "most likely be closer" to the low end of the range of analysts' estimates. Its shares were down $3⅝ to $56⅝ in midday trading.

Speaking to analysts in New York, Charles Holliday, DuPont chairman and chief executive officer, said: "I would expect by the fourth quarter an increased contribution from our productivity efforts, a more normal comparison in our agricultural products business and lower interest expense."

Last month, DuPont reported a 12 per cent fall in second-quarter earnings and warned that, due to difficult business conditions, third-quarter earnings would be below those of last year.

DuPont blamed the expected third-quarter shortfall on lower oil prices, higher quarterly interest expense from acquisitions, about $100m lower revenues from agricultural products, owing to a change in distribution in the quarter, and a difficult Asian environment.

Mr Holliday said DuPont's strategy of transforming itself into a faster growing and less cyclical group of businesses remained intact.

INVESTMENT TRUST TAKES NEGATIVE OUTLOOK ON UK AND US MARKETS AND MOVES TOWARDS 'SAFE HAVEN' OF EUROPE

Foreign & Colonial adopts bearish view

By James Mackintosh

Foreign & Colonial Investment Trust, the largest conventional investment trust, has dropped its bullish approach to world markets and has the lowest borrowings in its 130-year history. It is also planning what could be a £300m ($495m) buy-back of its own shares.

The trust's manager said yesterday it had cut its gearing to below 4 per cent and was taking a negative outlook on the UK and US markets. The move by such an influential investment manager is likely to be closely followed by institutional investors.

Jeremy Tigue, who runs the £2.4bn trust for Foreign & Colonial Management, said he was moving money out of the UK and the US into the "safe haven" of Europe.

"You could say I'm a fully invested bear," he said. "We are worried about earnings prospects [in the UK and US], while Europe has the euro coming, companies there are waking up to shareholder value and people are waking up to equities [rather than the traditional investments in bonds]." In response, he now holds a quarter of the trust in continental Europe, up from 19 per cent in December, against 23 per cent in the US and 40 per cent in the UK.

The trust has cut back its holdings in Japan and south-east Asia, and taken a strongly negative view on both the yen – on which it made profits of £3m in the first six months of this year through a 50 per cent hedge – and sterling, where it is hedging 10 per cent of its exposure.

"We have been bargain hunting in Asia," Mr Tigue said. "Have the bargains held their value? No."

The trust is meanwhile to ask shareholders for permission to buy back shares, although the precise amount depends on government rules on buy-backs to be announced by April. A standard buy-back of 14.99 per cent of the shares would be worth almost £300m at yesterday's closing share price of 185.75p, and is likely to be funded by borrowing.

Arnab Banerji, chief investment officer of F&C Management, said the trust would not necessarily buy back shares when tax rules changed, but wanted permission from shareholders to do so. He said buy-backs faced the problem that unless every trust in the sector carried out a buy-back, brokers would arbitrage away the benefits.

"They would simply take the cash and buy shares of another trust on a big discount," he said.

Net assets in the six months to June 30 rose 12.3 per cent to £2.402bn, or 228.5p per share, against a rise in the FTSE All-Share index of 13.8 per cent. The interim dividend is 0.86p, up 7.5 per cent, and the trust predicts a full-year dividend of 2.7p, up 7.6 per cent.

COMMENT

Investment Trusts

Signs of positive action from the investment trust industry to improve its image are coming thick and fast. With Foreign & Colonial, the biggest, now planning to buy back shares, that swelling stream – already about one in six of the 300 trusts – should become a torrent. It is clearly better for investment trusts to initiate shareholder friendly action than to be forced into it by predatory stake builders, which have usefully shaken the sector's complacency. Buybacks will bolster net asset values per share, and should help narrow the substantial discounts to NAV at which many are trading. To ease the way for large buybacks, the government should remove technical barriers that mean trust status may be jeopardised.

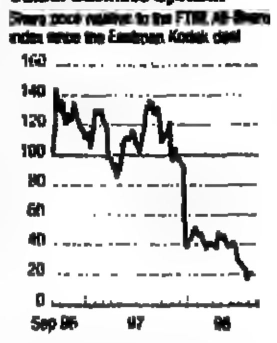
Buybacks will join moves to wind up some trusts in tackling the oversupply of equity. This dates back to a splurge of issues in 1993-94, since exacerbated by the partial withdrawal of institutional investors as they brought more specialist fund management in-house

But investment trusts also need to stimulate demand. Daniel Godfrey, new head of the Association of Investment Trust Companies, is right to suggest a levy to spend on marketing to private investors. Adding a tenth of a percentage point to trusts' very low charges could raise £65m, similar to the amount spent marketing Peps. If it helped narrow the discount by just one percentage point, the return would easily justify the cost.

Danka Business Systems

Danka Business Systems

Share price relative to the FTSE All-Share index since the Eastman Kodak deal



Source: Datastream/ICV

The rise and fall of Danka has a depressingly familiar ring to it. Stunning earnings growth for over five years, fuelled by acquisitions. Then the deal too far, buying Eastman Kodak's photocopying business which doubled its size. The bungled integration should make investors weep. First Danka wanted to keep the business separate. Then it decided to integrate it. The highly-charged salesmen had other ideas. A new compensation plan – poorly communicated – meant they had to cold-call more new customers. It made them hang up the phone instead. Total equipment sales fell 22 per cent in the first quarter and more heavily in the US. Alarmingly, interest cover is now less than two times. It is hard to see how the current management can restore credibility from here.

Smurfit repackages its paper for European investors

John Murray Brown on the diversification of Irish share registers likely to follow the launch of the single currency

Michael Smurfit, chairman and chief executive of the eponymous Ireland-based paper and packaging company, has just taken on a new task – that of overseeing the job of persuading European institutions to hold Jefferson Smurfit shares.

The decision to take direct responsibility for what is euphemistically called "investor relations" is a measure of the challenge facing the company, ahead of next year's launch of the European single currency, when Irish institutions are expected to offload Smurfit and other Irish equities as they will no longer have to match their domestic liabilities with exclusively Irish assets.

The diversification of share registers which is expected to result is both a threat and an opportunity for large Irish companies, who traditionally have been over-reliant on loyal local institutional holders to bolster their share prices.

Shane Whelan, of Friends First Asset Management, estimates Irish funds will reduce their weightings in the Irish market from about 32 per cent currently to 20 per cent in the next three years, when, as part of Euroland there will be no currency or country risk.

Decisions to invest will be taken on a sectoral basis. In the case of Smurfit, capitalised at £1.46bn, European paper company valuations will be the key measure. "The fact we are Irish will be irrelevant; it will based purely on value," said Harry Sheridan, finance director at CRH, the £2.8bn building materials company.

To differing degrees, all Irish companies face the problem. Smurfit is 42 per cent owned by Irish institutions, CRH 35 per cent and Allied Irish Banks, the country's largest bank with a capitalisation of £8.1bn, 32 per cent.

Gary Kennedy, AIB's group finance director, said the change would not happen overnight: "It will take a lot of road shows and a lot of Aer Lingus tickets before it pays off. You've got to remember the equity culture is in its infancy in Europe."

In theory the shift in portfolios could result in downward pressure on prices. Mark Kenny, who runs Smurfit's investor relations department, estimated that up to 200m of the company's shares would change hands: "It's not a natural evolution. We will have to manage the change, to make sure the stock finds a home."

European institutions – excluding those in the UK, which is not joining the Euro – have just 1.6 per cent of Smurfit. In 1995, there were no European holders. Analysts believe the company will have to persuade Europeans to buy about 10 per cent by 2001.

In a bid to raise their profile outside Ireland, many large Irish companies already present their annual financial results by video conference in London.

But Mr Kenny said that was just the beauty contest; the real missionary work was done knocking on doors, trying to persuade analysts to follow the stock.

Unlike the banks, Smurfit has little exposure to the Irish economy. The good performance of that economy has been the main reason for foreign investors to take positions in the Irish market. Smurfit is a cyclical stock. "And this is a sector that has not had three good months in the last three years," said Mr Kenny.

But the hope is that as continental pension funds increase the amount of their assets held in equities in line with Irish and UK practice, Smurfit will be big enough to ensure a place in any Europe-wide sectoral portfolio.

The company now has 18 key equity analysts at brokers including Goldman Sachs, Merrill Lynch and Société Générale covering the stock, and is being advised by Taylor Rafferty, a US-based consultant.

Smurfit points to what has already been achieved in the US. Excluding holders of American Depositary Receipts, US institutions now account for 21.8 per cent of Smurfit's share register, against 14 per cent three years ago.

Mr Kenny said: "This was done against the background of fairly negative investor sentiment. And unlike some other Irish companies we have not issued stock through the secondary markets to achieve it."

Michael Smurfit facing a new challenge Maxwells, Dublin

Flextech breaks into the black

By Cathy Newman

Flextech, the pay-TV company, entered the black for the first time yesterday after improved audience ratings on its main television channels. The company announced pre-tax profits of £1.68m ($2.77m) for the six months to June 30, compared with a loss of £5m the year before.

Adam Singer, chairman, said Flextech wanted to "show the world we're a serious solid company with serious solid profits". The company made a profit before exceptional costs in 1997.

Flextech owns channels such as *Living*, which broadcasts the Jerry Springer chat show and is the fastest growing cable and satellite channel in terms of audience share.

Mr Singer was enthusiastic about the prospects for digital television, which launches later this year in the UK. *Living* is to be shown on digital cable television and on British Sky Broadcasting's digital satellite service from October.

Other Flextech programming is to be shown on all three digital platforms - cable, satellite and terrestrial television. As a result, Mr Singer said "if there's any digital growth we'll benefit".

Analysts said the results exceeded expectations.

The shares rose 23½p to close at 497½p. However, some analysts were concerned about the Independent Television Commission's decision to ban agreements forcing viewers to buy large numbers of television channels.

Flextech has been granted a judicial review of the ITC's decision to ban so-called "minimum carriage requirements", which in the past guaranteed that channels were broadcast to at least 80 per cent of subscribers.

Operating profit rose to £1.2m (£12m loss) on turnover of £64m (£44.6m).

Extent of Danka's decline surprises

By Jonathan Ford

Shares in Danka Business Systems, which supplies photocopiers and other business equipment, fell by 11 per cent yesterday as the company announced a deeper-than-expected 61 per cent decline in first quarter pre-tax profits to £8.1m ($13.4m).

The group blamed the fall on problems at its US operations and price-cutting in the UK by Japanese business equipment suppliers.

Investors had expected weak figures following a profit warning in June – Danka's second since last December. However, analysts were still looking for profits of about £15m.

The shares closed down 16½p at 137½p. They have now lost 75 per cent of their value since the December profit warning, when Danka first cautioned that US sales were likely to disappoint.

Danka's problems relate to the integration into its US business of Eastman Kodak's distribution arm, bought for £488m in 1996.

The group said it lost sales following the integration of the two sales forces on April 1, which also saw the introduction of a new pay and commission structure. This contributed to a 9.5 per cent fall in turnover to £462m.

"The new pay structure definitely introduced uncertainty," said Mark Vaughan-Lee, chairman. "Our US sales people are incredibly compensation driven, so when they didn't understand the new system, there was a tendency just to sit on their hands."

Danka also experienced problems in the UK market as Japanese manufacturers with direct distribution outlets cut prices to take advantage of the depreciated yen. This contributed to a sharp fall in operating margins, from 6 per cent to just 3.8 per cent.

Mr Vaughan-Lee expects price competition to ease in the second quarter as the group renegotiates contracts with manufacturers to take account of the depreciation in the yen.

Analysts moved to reduce their forecasts for the year by nearly 20 per cent to about £50m as the scale of Danka's problems became clear. Last year, Danka made pre-tax profits of £77.9m.

Operating profits fell 44 per cent to £17.4m, hit also by larger provisions for obsolete stock because of the reduction in turnover.

Danka's borrowings rose from £555.3m to £574.8m, generating interest charges of £9.3m. Interest cover slipped from 3.0 times to 1.9 times.

Ind Insurance overcomes odds

By James Buxton

Independent Insurance, the general insurance group, yesterday defied the disappointing results from other composite insurers, marginally lifting interim operating profits from £22.3m ($36.79m) to £22.7m.

This result was achieved in spite of what Martin Bright, chief executive, called "some of the worst market conditions experienced".

The London-based company achieved an underwriting result of £7.3m in the six months to June 30, compared with £6.9m last time, despite bad weather in January and floods in April.

With difficult conditions in the commercial, private property and standard motor markets, gross written premiums fell 7 per cent to £250.5m (£269.9m).

The adverse weather affected the underwriting results of the property accounts and the schemes and affinity business by £8m. But the company said trading in the second quarter was much better.

"Underwriting is our main science here," Mr Bright said. "We are very choosy in what risks we take on, we probably spend more than other companies on assessing risks, and we walk away from a lot of business.

"But we end up underwriting some business that other insurance companies would define as high risk. We refuse to pursue market growth at the expense of underwriting profit."

Investment income was stable at £15.4m, but realised investment gains were £18.4m (£5.9m), helping lift pre-tax profits nearly 50 per cent to £38.5m.

Mr Bright said the outlook for the insurance business over the next two years was "more optimistic than I've seen for some time.

"Rates are definitely beginning to firm up in some of the businesses we are in and some insurers are withdrawing from markets. I expect a determined and steady rise in rates."

RESULTS

		Turnover (£m)		Pre-tax profit (£m)		EPS (p)		Current payment (p)	Date of payment	Corresponding dividend	Total for year	Total last year
Carisbrooke	6 mths to June 30	3.2	(5.49)	0.21	(0.221♠)	2	(2.3L)	1	Dec 1	1	-	1
Danka Business'	3 mths to June 30★	462.9	(510)	8.07	(20.8)	2.5	(8.5)	-	-	-	-	5.12
Flextech	6 mths to June 30	86.6	(51)	1.68♠	(5.1L)	1.04†	(3.85L)	-	-	-	-	nil
Indep't Insurance	6 mths to June 30	250.5■	(269.9■)	38.5#	(25.9#)	11.9	(7.9*)	1.5	Oct 30	1.25*	-	3.5*
Johnson Fry	6 mths to June 30	12	(14.1)	0.848L♠	(4.71♥)	5.3L	(34.1)	2	Nov 27	2	-	4
Lotteryking ф	Yr to Apr 30	1.59	([illegible])	0.148	(0.004)	0.085†	(0.002)	-	-	-	-	-
MediaKey	6 mths to June 30★	10.2	(7.53)	1.321♠	(0.12♠)	1.21†	(0.1)	nil	-	0.4	-	1.2
NMS Petroleum ф	6 mths to June 30	-	(-)	0.739L	(0.557L)	6.3L	(5.3L)	-	-	-	-	-
Oxford Biomed ф	6 mths to June 30★	5	(0.8)	1.83L	(1.25L)	2†	(2.1L)	-	-	-	-	-
Portmeirion Potts	6 mths to June 30	13.3	(16.2)	1.05♠	(2.75)	6.69	(17.31)	3.3	Oct 2	3.3	-	13.25
Ryanair ‡	3 mths to June 30	57.8	(41.3)	9.22	(5.73)	4.46†	(3.2)	-	-	-	-	-
Xenova	6 mths to June 30	2.98	(0.531)	6.47L	(5.94L)	27L	(25L)	-	-	-	-	-

Investment Trusts		NAV (p)		Attributable Earnings (£m)		EPS (p)		Current payment (p)	Date of payment	Corresponding dividend	Total for year	Total last year
Foreign & Colonial	6 mths to June 30	228.49	(195.35)	22.1	(19.9)	2.71	(1.89)	0.86	Oct 2	0.8	-	2.51大
NatWest Smaller	Yr to June 30	209.86	(178.74)	1.63	(1.68)	3.79	(3.51)	2	Sept 30	2	3.125	3.125

Earnings shown basic. Dividends shown net. Figures in brackets are for corresponding period. ★Comparatives restated. ♠After exceptional charge. ♥After exceptional credit. †On increased capital. ■Gross premiums written. #Includes realised investment gains. *After adjustment for share split. ☆Comparatives for nine months to June 30. фAim stock. 大Includes foreign income dividend element.

Boost for Oxford Biomedica

By Michael Peel

Oxford Biomedica, the gene therapy company, will forge ahead with its innovative research and development programmes, after securing its financing for the immediate future by a £6m ($9.9m) placing and rights issue.

The statement came yesterday as the company announced pre-tax losses of £1.83m for the six months to June 30, compared with losses of £1.25m for the nine months to June 30 last year. The shares gained ½p to 14p.

The company, which spends £300,000 a month, had £5.08m cash at June 30. It had turnover of £5m in the first half, and losses per share were 2p (2.1p). This year it placed 45.7m shares at 10p and issued 14.3m shares at the same price in a 1-for-4 rights issue.

Biomedica's shares are trading at less than a fifth of their price at flotation on Aim in December 1996. Alan Goodman, who replaced Sir Brian Richards as chairman last month, said the fund-raising had been achieved despite a very difficult financial market for the sector.

The company aims later this year to begin clinical trials of MetXia, used in the treatment of late-stage breast cancer. A second trial of BetOvaC, used in the treatment of ovarian cancer, is planned for mid-1999.

One analyst said the clinical trials ought to start to show results next year, although it might take between four and five years for either product to be near the market. There could be significant interest from pharmaceuticals companies if initial results looked "anywhere near encouraging".

Professor Alan Kingsman, chief executive, said Biomedica would initially concentrate on marketing its technology, giving it time to add more value to its products. The company was already in discussions with large pharmaceuticals businesses who were interested in items of its technology.

RICHARD DONKIN

Riches for the few

Directors' pay seems to be rising irrespective of company performance

Pay restraint is a difficult concept to promote when you have your own snout firmly in the trough, a trade union leader said last week. John Edmonds, the GMB union's general secretary, was reacting to a report which found that directors' pay in the UK's 350 largest public companies had risen by nearly 18 per cent in the last financial year.*

The report showed that not only had many directors enriched themselves with large bonuses and the cashing in of share option schemes, but some, where annual bonuses either went down or failed to pay out, appeared to have been compensated by large, basic salary increases.

This rise in pay appears to *explode the myth that* directors can expect big pay increases only when they improve the company's performance.

In the US, where chief executive payouts in top companies have hit the stratosphere, there have been examples of boardroom generosity to underperforming executives. Lester Alberthal, 54-year-old chairman and chief executive of Electronic Data Systems who has just announced his departure, did not qualify for a bonus or stock options last year but was, nevertheless, given £13m in restricted shares.

There is an argument, voiced by the UK's Institute of Directors, that directors of big companies deserve their rises because they are controlling enterprises which create the nation's wealth. "You are talking about the star performers of the FTSE. To put it in context, the vast majority of directors have been getting annual pay increases of between 3.5 per cent and 4 per cent," says Tim *Melville-Ross, director-*general of the IoD.

But now that the stable economic conditions that businesses craved for so long have been achieved, is it really sensible for those who run companies to allow their own pay awards to race ahead of those of their employees?

Pay militancy has all but disappeared. There is restraint among ordinary working people – born more out of helplessness than philanthropy. Legislation to curb union power and widespread redundancies did much to weaken the resolve of employees to obtain bigger pay increases. Low inflation also removed the need for such rises.

Pay discontent became a matter of relativity: should nurses be paid more than teachers or should teachers get more than shop managers? People became used to the annual top-up to keep abreast of inflation. Pay became less of an issue. Yes, there was an outcry against "fat cat" salaries a few years ago. But it did not result in excessive pay demands. People in work were, and still are, thankful *to have a job.*

Mr Edmonds has accused directors of hypocrisy but the directors might argue that they do not set their own pay. Their pay is settled by remuneration committees which tend to rely on pay consultants. The consultants use data and various formulas to determine pay, often in relation to the "size and complexity" of the business. This phrase usually means that if a company acquires another company the boss gets a boost in pay to reflect his standing at the head of a much bigger company.

On that basis we might expect a company which sells off less profitable companies to cut the pay of its chief executive who would now be heading a smaller company. It doesn't happen.

One solution might be either to throw out the consultants or to engage their methods to determine the pay of every employee in the company.

Another solution requires something more than consultancy – nothing less than a change in values. It is long-term, fundamental and somewhat idealistic. Charles Handy, in his last book, reminded business leaders of their wider role in a society dominated by capitalism.

It is something Peter Drucker recognised more than 40 years ago. In *The Practice of Management*, he wrote: "Their [managers'] impact on the economy will be so far reaching that *society will hold* the manager accountable. Indeed, the new tasks demand that the manager of tomorrow root every action and decision in the bedrock of principles, that he lead not only through knowledge, competence and skill but through vision, courage, responsibility and integrity."

Is the pay scramble on either side of the Atlantic living up to these ideals? There was one example of clear managerial pay restraint in the annual reports of FTSE 350 companies – that of Body Shop. Anita and Gordon Roddick, joint chairmen, each drew total earnings of £162,000 in 1997, reflecting pay increases of 3.7 per cent. *Their remuneration* committee had recommended salaries of £300,000 each. Each earned less than the company's finance director.

**Directors' Pay Report 1998 is published by Incomes Data Services and Arthur Andersen, £250. Contact Steve Tatton or Paul Hodgson, tel +44 171 250 3434*

Salaries, bonuses and car allowances in City of London finance

Position	Lower quartile £000	Median quartile £000	Upper quartile £000	Average salary £000	Average bonus % salary	Provided % posts	Car value £000	Annual allowance £000
Corporate finance head	162.3	178.2	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Capital markets head	148.8	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Bond sales head	105.0	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Fund management director	119.6	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Futures & options head	94.0	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Eurobond trading head	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Equity trading head	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Private banking head	120.0	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Head of research	80.0	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Financial director	90.0	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Chief FX dealer	81.5	92.5	121.5	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Legal services head	70.0	77.9	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Personnel director	65.0	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Money market head	64.1	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
IT director	60.0	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Credit head	92.5	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Head of risk	75.0	85.8	100.0	[illegible]	40.8	[illegible]	17.8	[illegible]

Source: [illegible]

City bonuses

Monks Partnership, the pay consultant which supplied the information for the table published above, is predicting a fall in bonus payouts in City of London dealing rooms next year as a result of the economic downturn in Asia.* Bonus levels for 1998 were higher in some areas but by no means in all. The median level of bonus in global custody departments fell from 20 per cent of salary in 1997 to 10 per cent this year.

The only traders to get bonuses topping 100 per cent of salary were in capital market derivatives, rising from 75 per cent of salary the previous year. Other big bonus payouts were enjoyed by those in asset finance (45.3 per cent), structured finance (50.6 per cent), bond sales and syndications (43.7 per cent), bond swaps (56.3 per cent), securitisation (43.3 per cent) and stock lending (41.3 per cent).

Bonuses in front office management went up by about 4 per cent while those in clerical and supervisory positions saw their bonus levels rise by 2 per cent. The table is drawn from the *Monks Partnership Guide to International Banks and Investment Houses*, which covers about 400 jobs among 179 employers.

**The report is £310. Contact Monks Partnership, tel +44 1799 542222*

Training counts

Another report released this week suggests throwing money at people may not be the best way to attract them.*

Salaries of UK-based information technology employees are expected to rise by 10.5 per cent in 1998/99, according to research undertaken by Reed Computing Personnel and published in IT Employment, a report from Management Today magazine and Market Tracking International.

Pay bills are rising faster than expected in response to increasing staff turnover, running at 19 per cent on average throughout the UK and at 38 per cent in the City of London.

But research among IT employees suggests that they have other imperatives such as training, work on "cutting edge" projects and flexible hours. The study found that IT employees were more likely to change jobs for better career prospects than for pay. Some companies are beginning to get the message. On the job Training was provided by 31 per cent of the 173 employers surveyed and further 15 per cent were planning to introduce training.

**IT Employment is published in two volumes, £495 each. Contact Stephen Cassidy, tel +44 171 263 1365*

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If you like the idea of joining us and are able to attend an assessment centre on either September 22 or 23 please send your CV to Lyn King, Personnel Manager, Group Finance, Barclays Bank PLC, 68 Barclays House, 1 Wimborne Road, Poole, Dorset BH15 2BB.

The closing date for applications is 1 September 1998

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- NPI Asset Management is the investment management arm of NPI, the retirement related financial services specialist. Total funds under management are approximately £11 billion.
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- Head of Performance Measurement is a new and high profile role with responsibility for developing and establishing a strong performance measurement and attribution function.
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NPI

Please apply in writing quoting reference 1558R with full career and salary details to:
Fiona Makowski
Whitehead Selection
11 Hill Street, London W1X 8BB
Tel: 0171 290 2054. Fax: 0171 290 2050
www.whiteheadselection.co.uk

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Head of Trading

WOOD COMPANY

Wood & Company was founded in Prague in 1990 and is the only region-based and region-wide investment bank covering the markets of central and eastern Europe. The firm researches, underwrites and trades in equities, advises on Mergers & Acquisitions and manages client assets. The company today is a licensed securities dealer and a member of the stock exchanges in Warsaw, Prague, Budapest and Kiev. The firm also has established offices in those cities. Wood & Company is one of the largest underwriters and distributors of new issues in Poland and is a leader on the Ukrainian and Hungarian markets. No firm sells more foreign equity to Czech fund managers than Wood & Company and in recognition of the firm's achievements, Euromoney/Central European magazine voted Wood & Company 'The Best Regional Brokerage in 1998'.

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The firm is now looking to recruit a key position which will be based in Prague and will involve the following:

- Full responsibility for the regional trading activities for Central and Eastern Europe.
- Arrange to commit substantial capital to provide client liquidity in the region.
- Co-ordinate and manage 10 traders in four countries.
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This is a role for an exceptional individual who will have the following abilities:

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This is truly an outstanding opportunity to join such a distinguished investment bank whilst it is still in a period of substantial growth.

To be considered for the above role, please forward your CV including salary details, to Michelle Sochor or Jonathan Stokes at Michael Page Eastern Europe, Page House, 39-41 Parker Street, London WC2B 5LN, UK, telephone +44 (0) 171 269 2405, fax +44 (0) 171 831 3440, e-mail: mpl.e.europe@michaelpage.com

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INVEST AUSTRALIA
EUROPEAN INVESTMENT MANAGER

The Organisation

- Invest Australia is the Australian Government's national investment agency.
- Invest Australia provides a wide range of services and advice to international companies seeking to invest in Australia.

The Position

- To market and promote Australia to European multinational corporations as an investment location.
- Based in Frankfurt the position will involve corporate research and an intensive contact and follow-up program aimed at marketing the commercial attractiveness of Australia in specific industry sectors.

Qualifications

- Applicants must be degree qualified with superior research and analytical skills.
- Extensive experience of marketing to senior executives will have been achieved over 5 to 10 years in law, accountancy, corporate finance or a business development role.
- A confident team player is sought with excellent communication skills, computer skills and ability to work under tight deadlines.
- English fluency is essential and German is desirable. The ability to work in an internationally diverse commercial environment is crucial.

To apply

- Please send full CV with a covering letter outlining how your skills meet our requirements to: Bernd Neubauer, Investment Commissioner, Invest Australia, Australian Consulate-General, Gutleutstr. 85, D-60329 Frankfurt/M, Germany.

Quantitative Analyst, London £ neg

Our client requires an individual to develop, test and implement fixed income derivatives models. A thorough understanding of stochastic partial differential equations is essential and some financial experience would be a distinct advantage.

The successful candidate will most likely have a PhD in Polymer Physics or Fluid Dynamics.

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To continue to meet the demands of our success, we are in the process of expanding our international operation. We now have opportunities for high calibre experienced professionals to join our London office and be at the forefront of marketing and developing Investor Relations programmes for companies across Europe.

We are looking for professional with a background in investor relations, equity research, institutional sales, share register analysis, or financial public relations. Presentation and communication skills are essential, as the point of contact within client companies will be at a senior level. Fluency in one or more European languages is essential for the Continental European positions. We expect a high level of self motivation and an entrepreneurial attitude. Regular travel and face to face contact with clients will be essential.

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The Position

- New role in expanding Fund Management Development Team bringing new Fund products/structures to market.
- Develop and co-ordinate production of legal documentation for new product launches.
- Project manage and co-ordinate implementation of projects with other group legal, sales, marketing and technical departments across Europe and Far East.

The Requirements

- Professional legal background with strong industry knowledge of regulatory, compliance and tax issues.
- Highly self motivated, with focused project management skills. Able to deliver in time and quality pressurised environment.
- Preferred knowledge of product range. Fluent in English, with conversational German desirable.
- Probably late 20s/early 30s.

Please reply in strictest confidence, with full career and current salary details, quoting reference IH/2819.

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Portuguese/Spanish/English

NYSE global medical equipment finance company, headquartered in Doylestown, PA, seeks a Chief Credit Officer to structure and review transactions in the healthcare industry for our Latin American expansion. You will be based out of Boca Raton, Florida and have a heavy travel schedule to South America. Candidate must be fluent in Portuguese and Spanish, have a minimum of 15 years lending experience, which includes secured lending expertise and several years direct lending in South America, along with a related degree. Must be transaction-oriented as well as able to manage/develop subordinates. Send resume along with salary requirements to: Manager, HR, DVI, Inc., 500 Hyde Park, Doylestown, PA 18901, fax: (215) 345-8768, e-mail: mikesm@dvifs.com. EOE.

DVI

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I require two well educated individuals (23-30) who want to be trained to fill management positions within a successful and expanding private company. The career path will reward those who accept responsibility with the job satisfaction and financial gain they deserve.

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PAK TELECOM MOBILE LIMITED

Pak Telecom Mobile Limited (PTML), a subsidiary of Pakistan Telecommunications Company Limited (PTCL) is preparing to launch its cellular operations in the country in competition with the three existing operators (in operation for over five years). PTML, as an independent subsidiary plans to provide state-of-the-art mobile communication services throughout Pakistan with an ambitious plan for geographical expansion and customer base. PMTL is looking for

Telecommunication Professionals

To help establish and operate its cellular business. The positions will be based in Islamabad and offer highly attractive compensation packages including benefits corresponding to the standards of other multinationals operating in Pakistan.

Project Director

The successful candidate will:

- have the ability to manage, in a tight schedule, large and complicated projects with wide geographical spread.
- build up a core team of experts to develop the network, organisation, marketing and distribution systems, customer services and other areas pertinent to the creation of a new business venture.
- develop the organization structure and operational procedures independent of PTCL and in line with the best commercial practices in the mobile communication industry.
- interface with equipment suppliers and project financiers and monitor the project implementation.
- develop project financials for regular review with the Board.

The candidate must be a telecommunication professional with at least 15 years experience. Candidates with experience in establishing and managing cellular networks will be preferred. Once the business is fully established, the project Director will continue to provide the leadership role as the senior executive in the operation of the business. An advanced engineering degree and proven track record of managing projects and people is desirable. An MBA or post graduate qualification in the field is a plus. The position will be for an initial contract period of 3 years, which is extendible.

Network Planning Expert

The successful candidate will have an expert knowledge of the planning of a cellular network based on topographical maps and metropolitan land records as well as proven field experience of network planning, preferably in Pakistan. The successful candidate will lead a team of engineers required to perform field trials. The candidate must have the ability to develop a network planning solution and optimization for the PTML network. The candidate should be a telecommunication expert with 5-10 years experience with an advanced engineering degree and proven track record of planning complex cellular networks.

Project Manager

Supporting the Project Director, the Project Manager will be the key interface between the Project Director and the teams performing the Engineering Network Planning and Commercial Contract activities. The Project Manager must possess an engineering degree with 5-10 years experience including experience of project management of telecommunication projects.

Please send your CV and covering letter by fax or mail or email by August 31, 1998 to:

Human Resource Manager, PAK Telecom Mobile Limited, Headquarters G-8/4, Islamabad, Pakistan.
Fax: (92-51) 282936, Email: ptml@paknet2.ptc.pk

Candidates of Pakistani origin will be given preference

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Financial Times

ACCOUNTANCY APPOINTMENTS

Country Reporting Managers

£Excellent Packages

BHI SERVICE BUREAU

Nottingham, England

Established in 1992, Boots Healthcare International (BHI) is a leader in the marketing and distribution of over the counter self-medication, with a turnover approaching £300 million.

BHI products including Nurofen, Strepsils and its skincare brands Lutsine, Onagrine, Balneum and E45 are on sale in more than 130 countries and the company is therefore superbly placed to capitalise on the exciting opportunities offered by the global healthcare market which is estimated to be worth $12 billion by the year 2000.

The BHI Service Bureau has been established to provide high quality financial and operational support for its businesses throughout Europe. It will become an essential part of the BHI business providing excellent service and value added information. As part of the ongoing development of the unit, four high calibre Country Reporting Managers are required.

Key responsibilities will include:

- Preparation of management reports incorporating budgets and forecasts which target value added activities.
- For the relevant country, delivery of statutory information such as tax packs and annual reports.
- Training of colleagues within the organisation in technical matters and close liaison with the allocated country.
- Interpretation of accounting policies and configuration of systems to most effectively deliver those policies.
- Management of multi-functional, multi-national teams created to address specific finance or reporting issues and the development of plans to deliver projects to agreed timescales and resources.

Successful candidates will be qualified accountants or business school graduates with a minimum of two years post qualification experience in the relevant country.

These demanding roles in a rapidly changing multi-national environment require excellent interpersonal skills in addition to well developed practical, financial and analytical abilities. Written fluency in at least one of German, French, Italian or Spanish as well as English is essential. Travel to Europe on a periodic basis will also be required.

This represents an outstanding opportunity to join and build a career with a world-class organisation.

Interviews will be held in London, the Midlands and relevant countries and relocation assistance is available for successful candidates.

To apply, please send your CV with a covering letter, including daytime telephone number and current salary details to Harvey Nash plc, 13 Bruton Street, London W1X 7AH. Tel: 0171 333 0033. Fax: 0171 333 0032. Please quote reference number FN0014. You may also apply via http://taps.com/Harvey_Nash

HARVEY NASH

Outstanding Finance Professionals

Marketing Services

Central London — **To £40,000 + Benefits**

Our client is the $200m turnover European division of a major US based marketing agency. Its current rapid growth is driven by expansion of its client base, which includes some of the world's biggest brand names, and by the success of its principal activity: the management of the global sales promotion activities of one of the world's largest multinational corporations.

The organisation is currently in the process of relocating its European HQ from Germany to the UK, and as a result is seeking to appoint two quality finance professionals who will report to the European Financial Controller. Responsibilities will include:

Financial Planning and Analysis Manager

- Providing all financial input to the project planning process;
- Ensuring that senior management, the marketing department and clients have access to timely, accurate and complete information;
- Monitoring project sales and costs versus plan, highlighting variances and identifying corrective actions as required;
- Completing quarterly forecasts, identifying and analysing trends and explaining variances to budget.

Financial Reporting Manager

- Managing the external financial reporting cycles of the European businesses, and providing support to the US parent for completion of SEC and IRS submissions;
- Ensuring the integrity of the accounts and compliance with relevant local reporting and tax requirements;
- Managing the month end process, providing consolidated results to local management and the US parent in line with US GAAP and agreed deadlines;
- Monitoring the organisation's cash and currency positions on a daily basis.

The two roles working together will be expected to develop a monthly reporting process which identifies key business drivers and highlights profitability by client, territory and project.

Each role calls for a qualified finance professional who has gained around two years post qualification experience, ideally within an international arena. German and/or French language skills, and a knowledge of German/French reporting requirements will be viewed as a distinct advantage. PC modelling skills and exposure to tight reporting deadlines will be taken as read.

As a prospective candidate, your success to date stems from your qualities as a team player and your broad commercial understanding. You are committed, energetic and tenacious and you thrive in a competitive, forward thinking and customer focused environment.

Interested candidates should apply to Jonathan Jones at Jones Christopher, enclosing a full curriculum vitae and current remuneration details. Please quote JJ8410 on all correspondence.

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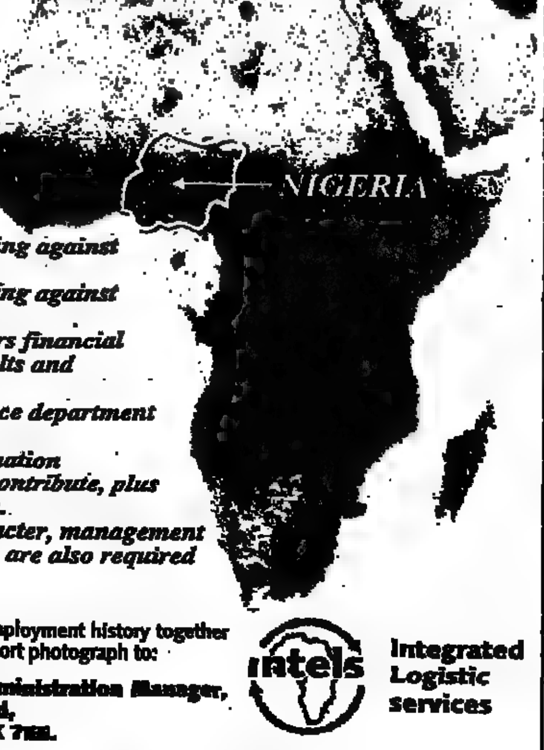
QUALIFIED CHARTERED ACCOUNTANT

Intels Management Resources Limited, a leading oilfield supply base operator in West Africa requires a Finance Manager for its Nigerian subsidiary.



Qualified Chartered Accountant

Salary: US $75,000 to $84,000
Plus Full Benefits Package

Candidates must be able to demonstrate comprehensive ability in the following key areas of responsibility:

- *Preparation and monthly reporting against soundly prepared budgets.*
- *Preparation and monthly reporting against realistic cash flow forecasts.*
- *A sound grasp of all basic matters financial and their impact on outturn results and intercompany transactions.*
- *Control and assessment of finance department staff in several locations.*
- *A basic understanding of Information Technology and what it should contribute, plus a high level of computer literacy.*
- *Strength and soundness of character, management skills and commercial awareness are also required in successful candidates.*

Candidates should submit details of their employment history together with a handwritten covering letter and passport photograph to:

Mrs Sade Odusanya, Personnel & Administration Manager, Intels Management Resources Limited, 14 Grosvenor Crescent, London, SW1X 7EE.

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Financial Controller

Media

West London **to £40,000 + Car + Bens**

Our client is part of a substantial global business operating in a growing area of the entertainment sector. The UK territory boasts a blue-chip customer base and has displayed consistent success as a brand leader resulting in a significant market share. Recent initiatives will further enhance this envied status. Reporting to the Finance Director, but working closely with operations and marketing functions, the Financial Controller will have a significant impact within the UK business.

Key areas of responsibility include:

- Management of the finance team.
- Control of both financial accounting and management accounting reporting requirements.
- Financial analysis and planning.
- Project management of SAP implementation.
- Strengthen controls to assist future growth.
- Regular ad-hoc project based assignments.

Relevant candidates will be qualified accountants (preferably ACA) with at least two years post qualifying experience, ideally with a media or service sector background. Excellent communication skills are required due to the high profile of the role.

Furthermore, you will require proven staff management experience, sound technical ability and the aptitude to meet deadlines. An energetic approach, combined with the desire to progress within the company, potentially in an international capacity, will be highly desirable.

Interested candidates should send a curriculum vitae stating current remuneration package and daytime telephone number to Martin Dowson at Michael Page Finance, Page House, 39-41 Parker Street, London WC2B 5LN or fax 0171 242 1020.
Please quote reference 431074.
e-mail: martindowson@michaelpage.com
www.michaelpage.com

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Financial Times

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We are representing a global investment bank which is growing rapidly and seeks strong Business Managers with the capacity to take on demanding roles in the management of the technology unit. You will be completely self motivated, hardworking and seek success at the top of your profession, investment banking and software sectors globally.

You will be a qualified accountant, preferably with an MBA, with a couple of years experience in one of the big accounting firms. An excellent communicator, you will have a strong interest in IT and a desire to work for an organisation at the leading edge of technology.

If you believe you possess the drive, commitment and experience to succeed, you will be offered the salary, training and challenges required to truly make a difference on a global scale.

Please apply in writing, enclosing your full CV, to TMP Worldwide, 32 Aybrook Street, London W1M 3JL quoting reference number 5093.

TMP Worldwide

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GAP

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A vacancy has arisen for a young professional to join a high quality European Finance and Business Development function. Reporting to the Financial Reporting Manager, the European Financial Accountant will be responsible for:

- Production of management accounts for UK and Ireland, with close attention to current and future store operations, highlighting and discussing major management issues.
- Statutory, tax and corporate reporting and supervising audit liaison across Europe.
- Assisting with preparation of budgets and forecasts as the company grows across Europe.
- Occasional travel to stores/operations in Europe.

Suitable candidates will be high calibre recently qualified accountants, probably ACA or ACCA from Commerce or Practice. Blue-chip client exposure or current experience in a multi-site reporting environment and knowledge of US standards would be useful but not essential. At interview you will need to demonstrate determination, flexibility and the ability to liaise at senior levels, both externally and internally, in a pan European environment. The successful individual will benefit from superb prospects in an expanding worldwide organisation.

For further details on this excellent opportunity, please contact Leslie Walters or Simon Marus at HW Hall Alexander on 0171 240 2101 or write/email them at the address below quoting your current salary details and Ref: MW170767. Any direct applications will be forwarded to HW Hall Alexander for inclusion in the selection process.

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HW

114 St Martin's Lane, Covent Garden, London WC2N 4AZ
Tel: 0171 240 2101 Fax: 0171 240 2060 E-mail: simon.marus@hwgroup.com

INVESTOR IN PEOPLE

Can You Measure Up To Our High Standards?

Group Financial Analyst c£40k + Bonus + Car + Benefits Oxfordshire

The Company

Our client is a major player in the UK leisure industry with a turnover of circa £300 million and gross assets of over £1 billion. The Company has recently decided on a corporate restructuring to enable it to focus on its key business opportunities.

This is an exciting opportunity to join the company at a time of unprecedented change. Our client intends to be at the forefront of the development of its sector in the leisure industry and accordingly the need for strong financial control and strategic input will be crucial.

As a result a key appointment has now become available.

The Role

Reporting to the Finance and Systems Director the role will have a strong commercial bias and will make a significant contribution to the strategic decision making process. Key tasks will include provision and analysis of market information, margin interpretation and development of Key Performance Indicators. Additional responsibilities will incorporate the preparation of reports, forecasts, budgets and commentaries for presentation to the Board. You will develop relationships with the Operations Managers, Banks and other Financial Institutions and will also be required to develop internal controls and systems to meet the demands of this dynamic business.

The Person

Our client is looking for a unique individual offering technical expertise coupled with strong business acumen, ideally with experience of multi-site/retail operations. A qualified ACA/CIMA/ACCA, you will be ambitious, proactive and be able to demonstrate the ability to initiate change, enhance profitability and to challenge the status quo. Excellent interpersonal skills, credibility and presence are all prerequisites of the role.

You will be expected to invest energy and ideas into the Company in return for recognition and professional and personal advancement.

To apply for this position, please send a detailed Curriculum Vitae, with a covering letter quoting reference HH/9815 to our retained consultant Hazel Holmes at Nigel Lynn Associates,
6 Worcester Street, Gloucester Green, Oxford, OX1 2BX.
Tel 01865 202066 Fax 01865 202033.
Email: oxford@nigel-lynn.co.uk

Virgin
ENTERTAINMENT GROUP

The Virgin Entertainment Group, comprising the megastore, cinema and related businesses worldwide, is one of the fastest growing areas within the Virgin empire.

With existing businesses throughout Europe, USA and Japan, the group has embarked upon an aggressive investment programme, including the recent purchase of Virgin Our Price from W H Smith, thus establishing the Virgin brand in a number of sectors within the global entertainment industry.

Virgin's search for excellence is now being extended to create an enhanced Group finance function to steer the Entertainment group through continued expansion and potential flotation.

Salary packages for all of these roles will be aimed at high achievers...

Group Financial Controller

West London **Ref: 70544**

Continuing growth and re-alignment of the various business units within the organisation has created the need to recruit an experienced and highly commercial individual to assume ownership of the Group Finance function. Reporting to the Group Finance Director, this role will include:

- The creation of the reporting processes to manage the transition from a private to public entity.
- Control of internal and external reporting, including all aspects of business planning and forecasting.
- Providing support, direction and advice throughout the business.
- Extensive involvement in the process leading up to flotation.
- Limited travel to the US, Europe and Japan.

You will be a qualified accountant, probably between the age of 30 to 35 with experience of handling a highly professional and capable team, preferably within the retail industry. In addition you will have a strong intellect, a high level of energy and must demonstrate flexibility and excellent communication skills.

Corporate Finance Manager

West London **Ref: 70546**

The Virgin culture is based upon initiative and the ability to seize upon business opportunities as they present themselves. This scenario necessitates the Virgin Entertainment Group to recruit a dedicated individual to concentrate on the issues surrounding constant deal brokering. Reporting to the Group Finance Director and with significant input to the Group Chief Executive, key responsibilities will include:

- Acquisition/joint venture negotiations.
- Refinancing and corporate restructuring.
- Ad hoc projects.
- Control of investor relationships and negotiations relating to existing banking arrangements.

The successful candidate will be a qualified accountant, probably aged in their early 30's with significant exposure to corporate finance; gained within either commerce, financial services, the venture capital markets or practice. Commercial acumen and significant presence will be key to success in this role.

Group Planning Manager

West London **Ref: 70547**

Following expansion there is now an increased requirement to strengthen the Group Finance function to enable tighter controls and enhanced business planning practices throughout the business worldwide. This new role will involve the following.

- Design and implement the planning and forecasting process.
- Coordinate the relationships between the Financial Controllers of the individual business units.
- Control all aspects of group management reporting.

You will be a qualified accountant, with 2 to 3 years post qualification experience. To date you will have gained sound commercial finance experience ideally within a retail environment, although this is not essential. Specifically you must have the ability to grow with the business and the role.

Interested candidates should in the first instance write to Richard Wright or David Sayers at Martin Ward Anderson, 7 Savoy Court, Strand, London, WC2R 0EL, enclosing their Curriculum Vitae with current salary details quoting the appropriate reference. Alternatively telephone them on 0171 240 2233 or fax: 0171 240 8818, E-mail: info@mwa.co.uk

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FINANCE MANAGER

c.£40,000 CENTRAL LONDON

Rapida is extremely well positioned within the media production sector. Having successfully responded to technological and cultural opportunities the high reputation for its products and services has placed Rapida in an ideal position to achieve significant growth.

Reporting to the Chief Executive the hands on role will include full responsibility for all financial matters. The distinction of the successful candidate will be to thrive by demonstrating drive, tenacity and dynamic leadership qualities whilst contributing with business strategy and commercial benefits.

The opportunity will suit candidates possessing a minimum 5 years PQE with a track record in commercial activities and who are now seeking to build on their experience within a progressive environment.

To apply, please send your CV including current salary to:

The Chief Executive
Rapida Group Plc,
136-148 Tooley Street, London SE1 2TU

RAPIDA

FT FINANCIAL TIMES

les Echos
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Ben Bonney-James on +44 171 873 4015

FINANCE DIRECTOR DESIGNATE

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We'll look after you

Our client is a highly respected property development company holding an unrivalled position in their niche market. Founded in 1948, the company generates an annual turnover of £15 million and has been voted British Housebuilder of the year 11 times, in addition to the 1998 'highly commended' award.

The Role

Reporting directly to the Board, you will assume responsibility for all aspects of the finance function including the development and management of six staff. In particular, the role will focus on:

- Formulation of corporate strategic plans and initiatives
- Producing budgets and forecasts
- Company secretarial duties
- Development of management information systems
- Treasury management
- Statutory account preparation
- Project evaluation

The Candidate

The ideal candidate will have the following background and characteristics:

- Qualified ACA/CIMA with four years' commercial post qualification experience
- Ability to work independently on a broad range of business issues beyond a purely financial perspective
- Excellent communication skills
- Extensive proficiency in office IT

Interested candidates should send their details to Jon Milton or Caroline Brooks ACA.

DLA Recruitment Consultants

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If you are interested in the above position, please contact either Sally Mullan or Alex Blair

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INVESTMENT BANKING

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Please contact Danielle Lorenz

Huxley Associates
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America House, 2 America Square, London, EC3N 2AH

Telephone: 0171 335 5858
Mobile: 0468 175 002
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EURO PRICES

EQUITIES

European rally proves short-lived

EUROPEAN OVERVIEW

By Philip Coggan, Markets Editor

Wednesday's rally on European markets turned out to be short-lived as the problems of Asia, and comments from George Soros about Russia, sent share prices down again.

A late recovery in the yen and opening strength on Wall Street helped bourses close off their lows for the day. But the FTSE Eurotop 100 index still slipped 0.8 per cent or 21.68 points to 2,675.89, while the broader Eurotop 300 index fell 9.08 to 1,165.81. The FTSE Ebloc 100 index, comprising stocks in countries that plan to join the euro, fell 5.62 to 986.26.

The scale of the correction in Europe in recent weeks has inspired some bulls to poke their heads above the parapet.

"Europe has been following the US correction, with markets broadly retreating 10 per cent from their July peaks. The fall in stock prices has been principally due to fears about corporate earnings in the context of the Asian crisis and heightened concerns about the slower picture in the US," says Francois Langlade-Demoyen, European strategist at Credit Suisse First Boston.

"However, the picture in continental Europe is different because the sustained growth in European consumption should ensure there is only limited potential risk to earnings estimates. We think that European equity markets should offer returns of about 20 per cent from current levels before year-end and about 40 per cent by end-1999."

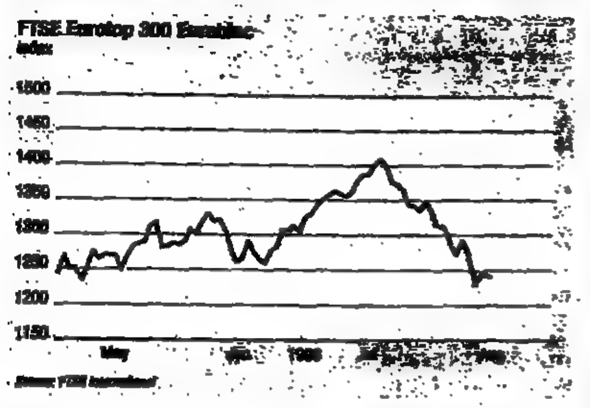
Meanwhile, Gary Dugan of J.P. Morgan points out that "the level of merger and acquisition activity and share repurchases shows no sign of abating and this should provide fundamental support for the European markets".

European merger and acquisition activity leaped 80 per cent to a new quarterly record of $216bn in the second quarter, while total share repurchases in the year to date have reached $124.6bn, well ahead of last year's $12.6bn total.

For the second day running, the oil exploration sector was the worst performing sector, on weakness in the crude price.

Construction stocks were the best performers, gaining 1.5 per cent.

FTSE Eurotop 300 Eurobloc index



FTSE Actuaries Share Indices — European series

August 13

FTSE Eurotop 300	[illegible]	-0.77	-9.08	2.47	[illegible]	[illegible]
FTSE Eurotop 100	2675.89	[illegible]	-21.68	[illegible]	[illegible]	[illegible]
FTSE Ebloc 100	986.26	-0.57	-5.62	[illegible]	[illegible]	[illegible]

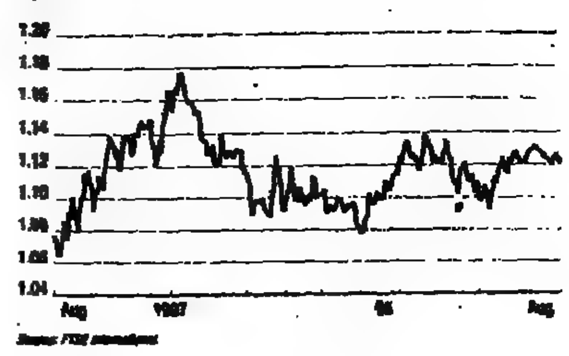
OTHER INDICES

FTSE EUROTOP 300

CURRENCIES & MONEY

FT SYNTHETIC EURO RATES

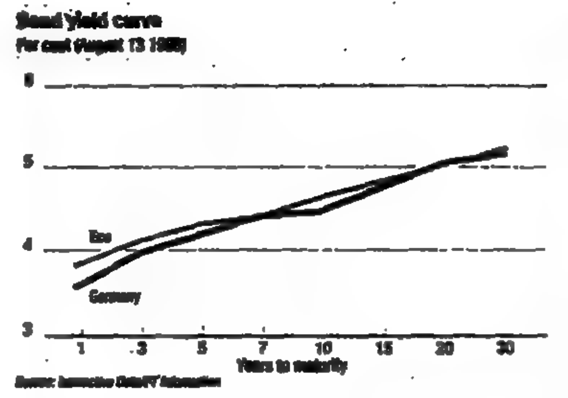
Synthetic Euro against the dollar



EUROZONE CURRENCY CONVERGENCE

BONDS

Bond yield curve



EUROZONE CORPORATE BONDS

GOVERNMENT BOND SPREADS vs ECU

EUROZONE CREDIT SPREADS vs ECU

Prices lower after skittish trading

GOVERNMENT BONDS

By Jeremy Grant in London and John Labate in New York

Profit-taking and fears that the Bank of Japan could soon intervene to support the yen hit prices yesterday, with markets ending lower after a day of skittish trading.

Although there were plenty of factors to help bond prices higher – principally further turmoil on Russian markets – traders said participants had preferred to take stock of their positions. There was also nothing in European economic calendars to spur trade.

Gilts were particularly hard hit by profit-taking.

In Spain, bonos ended weaker on global factors but did not react as expected to data showing inflation at higher than expected levels.

Analysts said Madrid would still have to cut interest rates because of the need to converge with other European rates ahead of the introduction of the single European currency.

Nevertheless, most analysts stuck to the view that bond-friendly fundamentals were still in place.

US TREASURY prices had moved lower by early afternoon heading into the final of the week's three auctions.

By early afternoon the benchmark 30-year bond was down $\frac{3}{32}$ to $107\frac{1}{16}$, yielding 5.629 per cent.

Among shorter-term issues the two-year note was off $\frac{1}{32}$ to $100\frac{1}{32}$, yielding 5.323 per cent, while the 10-year note was ⅛ lower at 101⅜, yielding 5.407 per cent.

Overnight prices pushed higher on concerns centred on the Russian currency but by mid-morning the recovering yen and an early rise in the stock market put prices under pressure just prior to the afternoon auction.

Retail sales were reported to have fallen 0.4 per cent in July on a slide in motor vehicle sales, although the news failed to excite the market. Excluding the motor vehicle sector, retail sales were up 0.5 per cent.

The producer price index for July is expected to be released today but is not expected to jar the market.

"I think people are pretty sanguine about inflation, so I don't think they'll be much concerned," said Richard Gilhooly, international bond strategist at Paribas Capital Markets.

UK GILTS saw weakness across the yield curve, indicating that global factors were at work rather than local interest rate concerns, which usually affect just the short end of the curve.

The September 10-year gilt future settled 0.65 points lower at 109.91 in volume of 81,000 contracts traded.

"We've had an extremely good run in the past few weeks and I don't think there's been anything to change people's minds on interest rate prospects," said Jonathan Loynes, UK economist at HSBC.

In the cash market, the yield spread between benchmark gilt and bund contracts widened by 6 basis points to 123 points.

GERMAN BUNDS gave up early gains to end lower on weakness in US Treasuries and as the yen inched higher against the dollar.

Traders said the market was cautious but remained bullish as worries over possible Asian currency devaluations had not evaporated.

The September 10-year bund future settled 0.05 points lower at 110.55 in volume of 553,000 contracts traded in Frankfurt.

Novel euro deal from Denmark

INTERNATIONAL BONDS

By Vincent Boland

New issue activity picked up yesterday, with the euro sector making a notable return and highly rated borrowers again to the fore. But issuing conditions were hit by further turmoil in Russian markets, culminating in a downgrading of its foreign currency debt ratings by Moody's Investors Service.

The **KINGDOM OF DENMARK** launched an innovative E500m issue that allows investors to buy either listed or unlisted bonds depending on their preference up to maturity. Bankers said the issue was well received in a market looking for quality paper and met demand for rare euro-denominated sovereign debt.

A syndicate banker at Morgan Stanley Dean Witter, lead manager, said the issue was structured to satisfy Asian demand for sovereign, euro-denominated paper.

The listing detail made it popular with Japanese investors. A little over half the issue was sold to investors there, with the rest going to European buyers.

"There is strong Far Eastern interest in unlisted bonds, while European buyers want straightforward issues with a listing, and both want liquidity. This issue brings them together for the first time and Denmark is a very strong credit," the banker said. "There's been a lot of interest in the structure, and it should be the first of many."

The 10-year bonds were priced at 8 basis points over the April 2008 French government bond. Some bankers said the spread was tight compared with 10-year issues from Finland and Sweden but the pricing was offset by the structure. The bonds were being offered in the market at the issue price in late trading yesterday.

The **EUROPEAN INVESTMENT BANK** surprised the market with a $500m, six-year issue priced to yield 27 basis points over US Treasuries, which some observers said was too tight in the current environment. The World Bank's benchmark five-year issue is currently trading at 30 basis points over US Treasuries.

A banker at Paribas, lead manager, said the spread was "fair" and in line with where other EIB dollar issues were trading. Dealers said the spread was widening towards the World Bank benchmark in late trading.

The bonds were targeted mainly at European investors, which accounted for 85 per cent of sales, with the rest going to Asian buyers.

"It was 90 per cent sold and we have bought back some paper but there was some shorting of it in the market," the banker said.

CADES, the French social security financing agency, raised E250m in a four-year issue targeted exclusively at the Japanese retail market. This was the agency's biggest euro-medium term note issue to date and the second targeted at retail investors in Japan.

Nomura, lead manager, said that after recent roadshows Cades had strong name recognition in Japan.

New international bond issues

Borrower	Amount m.	Coupon %	Price	Maturity	Fees %	Spread bp	Book-runner
US DOLLARS							
European Investment Bank	500	5.625	99.888R	Sep 2004	0.275R	+27(5¼Aug03)	Paribas
MBNA 1998-F, Class A(a)‡	425	(a1)	100.00R	Sep 2005	0.35R	-	Merrill Lynch
D-MARKS							
UBS Jersey Branch(b)	150	10.25	100.00	Sep 2000	undisc	-	Warburg Dillon Read
FRENCH FRANCS							
Total	1bn	5.00	98.99R	Sep 2013	0.425R	+32(l)	Banque CPR/Merrill
SWISS FRANCS							
Energie Beheer Nederland	300	2.75	102.125	Sep 2003	2.00	-	ABN Amro/Warburg DR
EUROS(e)							
Kingdom of Denmark	500	4.625	99.522R	Sep 2008	0.325R	+8(5½Apr08)	Morgan Stanley DW
Cades★	250	3.70#(s)	99.98	Aug 2002	1.00	-	Nomura International
LUXEMBOURG FRANCS							
GenFinance Luxembourg	2bn	(c)	102.625	Sep 2008	2.00	-	BGL

Final terms, non-callable unless stated. Yield spread (over relevant government bond) at launch supplied by lead manager. ★Unlisted. ‡ Floating-rate note. #Semi-annual coupon. R: fixed re-offer price; fees shown at re-offer level. a) Credit card asset backed. Legal maturity: 15/2/08. a1) 3-mth Libor +10bp. a2) Class B: $37.5m, 3ML +28bp, parR, 15/9/05 expected. b) Redeemed at par or 28.858 Daimler-Benz shares per DM5,000 bond. c) 4¼% to 30/9/03, then 6¼%. e) Payments in Ecu prior to Emu. Spread relates to French govt Ecu bonds. l) Over interpolated yield. s) Short 1st coupon.

Matif to replace UK gilt contract

By Jeremy Grant

Matif, the French derivatives exchange, yesterday said it would launch a new version of a gilt futures contract it recently suspended after only nine days of trading.

The first contract was introduced on Matif's new electronic trading system in mid-July as a challenge to the London International Financial Futures Exchange pit-traded gilt future.

However, it ran into problems after complaints from traders over contract specifications and after a trade was badly mis-priced on the first day of dealing.

Traders said at the time the maturity of the contract was too short to allow them sufficient hedging opportunities. Nor were its specifications suitable to allow smooth arbitrage with the gilt future traded on Liffe.

Matif said the relaunched gilt future would start trading on August 21. It had extended the maturity of the underlying securities from 7.5-11 years to 8.65-13 years.

The new contract has the same characteristics as the long-dated gilt traded on the open-outcry system at Liffe.

The gilt future is as part of Matif's strategy of attracting participants to its electronic trading system, which was introduced in April. It claims the system, known as NSC-VF, offers cheaper trading costs than the traditional, pit-based method.

Matif is battling rival European derivatives exchanges for dominance of contracts related to the eventual euro currency. It is marketing the NSC-VF as an electronic platform for yield convergence plays in the euro-zone.

GM secures funding for China venture

By Louise Lucas in Hong Kong

Financing closed this week for General Motors' Shanghai joint venture – a US$821m deal that is the first big syndication in renminbi, the Chinese currency.

The deal – which Citicorp, the arranger, said was heavily subscribed – is a rare bright spot in Asia's moribund lending markets.

The Asian financial crisis has hobbled the region's syndicated loans market, as a number of international banks face significant write-offs and are reluctant to return to the market. In addition, Japanese banks – once stalwarts on syndicated loan rosters – are facing problems at home.

However, 44 banks joined the Shanghai General Motors transaction, which included tranches of renminbi and US dollar funds. Several Japanese banks were also involved, and Citicorp attributed the heavy take-up to the blue chip sponsors and a strong business plan.

These enabled the bank to arrange limited recourse financing, with no guarantees and no off-take agreement (promises to buy vehicles in the event of weak demand).

"There's no liquidity problem in China for well designed deals," said Christopher Tibbs, head of corporate banking for Citibank in Shanghai.

This is borne out by the terms of the deal, which are less than generous to investors by recent standards. The GM joint venture is paying just 85 basis points over Treasuries for its funding, compared with 100 and 185 basis point premiums attached to recent Hong Kong corporate deals.

Wharf (Holdings), the Hong Kong conglomerate, last month secured a HK$1.5bn loan, paying 187.5 basis points over three-month Hong Kong interbank offered rate for an average life of 2.5 years. It also pledged a mortgage over one of its property developments.

Funds raised by Shanghai General Motors, a joint venture with Shanghai Automotive Industry Corporation Group (SAIC), will finance the construction of a $1.5bn plant to build Buick cars. Production is due to start by the end of this year.

SAIC's wholly owned finance subsidiary, Shanghai Automotive Group Finance Company, was lead arranger of the renminbi syndicated facilities, which totalled RMB2.9bn ($350m).

Avinder Bindra, head of syndications at Citicorp, expected more such deals to follow.

"With renminbi interest rates now significantly closer to US dollar interest rates, this will undoubtedly lead to increased requirements for renminbi financing by companies doing business in China," he said.

Other bankers were less convinced, given that pricing has moved up sharply from the levels achieved six months ago, when Citicorp first took the transaction into the market.

Moreover, in the first half of the year the total volume of syndicated loans for Asia (excluding Japan) came to US$24.77bn, and the second half is expected to be even lighter. For all 1997, volume was US$156.28bn.

WORLD BOND PRICES

BENCHMARK GOVERNMENT BONDS

Aug 13	Red Date	Coupon	Bid Price	Bid Yield	Day chg yield	Wk chg yield	Month chg yld	Year chg yld
Australia	01/01	8.750	107.7411	5.27	-0.01	+0.22	+0.09	+0.04
	08/08	8.750	123.7000	5.58	-0.02	+0.12	+0.12	-1.24
Austria	07/00	5.875	103.4600	3.86	+0.01	-0.09	+0.12	-0.23
	01/08	5.000	102.3800	4.65	+0.01	-0.07	-0.15	-1.09
[illegible]								

10 YEAR BENCHMARK SPREADS

[illegible]

EMERGING MARKET BONDS

[illegible]

BOND FUTURES AND OPTIONS

France

NOTIONAL FRENCH BOND FUTURES (MATIF) FFr500,000

	Open	Sett price	Change	High	Low	Est. vol.	Open int.
Sep	106.65	106.47	+0.01	106.73	106.38	109,487	136,289
Dec	106.20	106.00	-	106.20	106.00	13,028	6,495

[illegible]

Germany

[illegible]

Italy

[illegible]

Spain

[illegible]

UK

[illegible]

US

[illegible]

Japan

[illegible]

Ecu

ECU BOND FUTURES (MATIF) ECU100,000

	Open	Sett price	Change	High	Low	Est. vol.	Open int.
Sep	-	105.48	+0.02	-	-	0	18

US CORPORATE BONDS

[illegible]

US INTEREST RATES

[illegible]

INTERNATIONAL BONDS

Aug 13	Red date	Coupon	S & P Rating	Bid price	Bid yld	Day's chge yld	Mth's chge yld	Spread v Govts
EIB	02/07	5.750	AAA	107.5700	4.65	+0.01	-0.20	+0.14
Spain	01/07	6.750	AA	107.5200	4.64	-0.01	-0.20	+0.13
Philip Morris	03/04	6.375	A	101.4900	5.06	+0.01	+0.01	+0.79
[illegible]								

UK BONDS

FTSE Actuaries Govt. Securities

[illegible]

FT Fixed Interest Indices

[illegible]

UK GILTS PRICES

[illegible]

Other Fixed Interest

[illegible]

GM secures funding for China venture

D-Mark seesaws after Soros letter

MARKETS REPORT

By Robert Chote and Richard Adams

George Soros's suggestion that Russia should devalue the rouble gave the foreign exchange market a bumpy ride yesterday, with cynics suggesting that the fabled financier may have made a tidy profit from the turmoil.

News of Mr Soros's letter in the *Financial Times*, in which he suggested that Russia should introduce a currency board following a 15 to 25 per cent devaluation of the rouble, put the skids under the D-mark in Asian trading. This reflects German economic ties to Russia, especially via banks.

The dollar moved from Wednesday's close of DM1.7747 to a high point of DM1.8003, carrying sterling higher with it. According to some market participants, the "Soros shop" then sold huge quantities of dollars against the D-Mark – $2bn according to some estimates – at upwards of DM1.7930.

The dollar duly dropped, reaching DM1.7820 in late morning trading in Europe and closing in London last night at DM1.784. The dollar's downward movement was exaggerated as traders who had taken short-term bets on greenback strength were forced to sell.

Sterling offered similar profit making opportunities. It climbed from Wednesday's close of DM2.8915 to an overnight high of DM2.9288 in Asia, before heading south to close after London trading last night at DM2.9001.

"They've had a great day", said one Soros-watcher admiringly. "What a wonderful thing it is to be famous".

■ POUND IN NEW YORK

Aug 13	— Close —	— Prev. close —
£ spot	1.6245	1.6265
1 mth	1.6217	1.6236
3 mth	1.6165	1.6183
1 yr	1.5999	1.5989

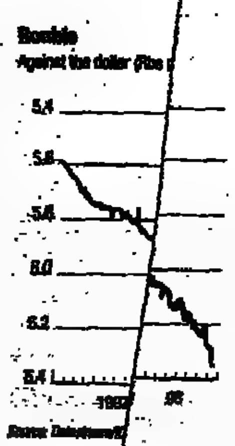
■ The dollar also suffered a choppy day's trading against the yen. From Wednesday's close of Y146, the US currency headed above Y147 in Asian trading, only to be pulled back by rumours of impending intervention.

Eisuke Sakakibara, Japan's vice finance minister for international affairs, predicted that Japan's economy would turn the corner this month or next – and that so would the exchange rate. "We are looking for chances for supportive intervention", said "Mr Yen".

The yen was also underpinned by talk that the Bank of Japan had been checking rates in the market. But traders believe that the US Treasury is unlikely to support further intervention until Japan's government toughens economic reforms.

The dollar closed in London yesterday at Y145.2.

■ Moscow had little time for Mr Soros's advice. "A one-off



devaluation [of 1]5 to 25 per cent would [s]olve a single one of the [pro]blems facing the Russia[n g]overnment", said Denis [...]yov, central bank depu[ty ch]airman.

The rou[ble d]ropped to 6.36 against t[he d]ollar in late European [tr]ading, from 6.2960 on [We]dnesday. The stock m[arket] plunged and rating ag[encie]s downgraded foreign c[urren]cy debt.

Marc Chandler, currency analyst with Deutsche Bank in New York, noted that it was difficult to predict how the markets would react to news in the current feverish atmosphere. He noted that the gold price had fallen to new lows and that the safe haven Swiss franc was only modestly stronger.

He argued that volatility was compressing traders' time horizons, which was further increasing volatility. "This makes for a step function rather than smooth movements in prices".

■ When it rains, it pours. As if the New Zealand dollar didn't have enough troubles – Asian trade and tourism falling away, economic growth shuddering to a halt, and floods washing through the North Island – it can now add political instability.

The collapse of the National-NZ First coalition has left the country with a minority party in government. The local equity and bond markets have been affected, while the New Zealand dollar dipped below $0.50 on the currency markets for the first time in two months.

The minority National party will probably cling to power until the opposition finds an issue to force a parliamentary defeat. The political moves obscured an earlier Treasury announcement that second quarter growth was probably negative, tipping the economy into recession. The outlook for the "kiwi" remains weak, according to London dealers. But at least Mr Soros has refrained from offering Wellington any helpful advice.

■ OTHER CURRENCIES

Aug 13	£	$
Czech Rp	52.4075 - 52.5087	32.2670 - 32.2990
Hungary	359.908 - 361.022	221.480 - 221.900
Iran	4873.30 - 4875.30	3000.00 - 3000.00
Kuwait	0.4955 - 0.4959	0.3073 - 0.3074
Peru	4.8060 - 4.8122	2.9570 - 2.9590
[illegible]	[illegible]	[illegible]
[illegible]	[illegible]	[illegible]
[illegible]	[illegible]	[illegible]
U.A.E.	5.9694 - 5.9734	3.6728 - 3.6730

POUND SPOT FORWARD AGAINST THE POUND

Aug 13		Closing mid-point	Change on day	Bid/offer spread	Day's Mid high	Day's Mid low	One month Rate	One month %PA	Three months Rate	Three months %PA	One year Rate	One year %PA	Bank of Eng. Index
[illegible]													

DOLLAR SPOT FORWARD AGAINST THE DOLLAR

Aug 13		Closing mid-point	Change on day	Bid/offer spread	Day's mid high	Day's mid low	One month Rate	One month %PA	Three months Rate	Three months %PA	One year Rate	One year %PA	J.P. Morgan index
[illegible]													

WORLD INTEREST RATES

MONEY RATES

Aug 13	Over night	One month	Three mths	Six mths	One year	Lomb. inter.	Dis. rate	Repo rate
[illegible]								

EURO CURRENCY INTEREST RATES

Aug 13	Short term	7 days notice	One month	Three months	Six months	One year
[illegible]						

CROSS RATES AND DERIVATIVES

EXCHANGE CROSS RATES

Aug 13		BFr	DKr	FFr	DM	IE	L	Fl	NKr	Es	Pta	SKr	SFr	£	C$	$	Y	Ecu
[illegible]																		

UK INTEREST RATES

LONDON MONEY RATES

Aug 13	Over-night	7 days notice	One month	Three months	Six months	One year
[illegible]						

EMS EUROPEAN CURRENCY UNIT RATES

Aug 13	Ecu cen. rates	Rate against Ecu	Change on day	% +/- from cen. rate	% spread v weakest	Div. ind.
[illegible]						

■ THREE MONTH STERLING FUTURES (LIFFE) £500,000 points of 100%

	Open	Sett price	Change	High	Low	Est. vol	Open int.
[illegible]							

■ SHORT STERLING OPTIONS (LIFFE) £500,000 points of 100%

Strike Price	Calls Sep	Calls Dec	Calls Mar	Puts Sep	Puts Dec	Puts Mar
92250	0.095	0.275	0.525	0.025	0.055	0.085
92375	0.030			0.085		
92500	0.005	0.115	0.335	0.185	0.145	0.125
92625	0			0.305		
92750	0	0.035	0.190	0.430	0.315	0.230
92875	0			0.555		

Est. vol. total, Calls 5800 Puts 63060. Previous day's open int., Calls 587635 Puts 457874

BASE LENDING RATES

	%		%		%
Adam & Company	7.50	Exeter Trust Limited	8.50	●Smith & Williamson	7.50
Allied Irish Bank (GB)	7.50	Financial & Gen Bank	8.00	Sun Bank	7.50
●Henry Ansbacher	7.50	●Robert Fleming & Co	7.50	TSB	7.50
Banco Bilbao Vizcaya	7.50	Habib Bank AG Zurich	7.50	United Bank of Kuwait	7.50
Bank of Cyprus	7.50	●Hambros Bank	7.50	Unity Trust Bank Plc	7.50
Bank of Ireland	7.50	Heritable & Gen Inv Bk	7.50	Whiteaway Laidlaw	7.50
Bank of India	7.50	C. Hoare & Co	7.50	Yorkshire Bank	7.50
Bank of Scotland	7.50	Hongkong & Shanghai	7.50		
Barclays Bank	7.50	Investec Bank (UK) Ltd	7.50	● Members of London Investment Banking Association	
Brit Bk of Mid East	7.50	Julian Hodge Bank	7.50		
●Brown Shipley & Co Ltd	7.50	●Leopold Joseph & Sons	7.50		
Citibank NA	7.50	Lloyds Bank	7.50		
Clydesdale Bank	7.50	Midland Bank	7.50		
The Co-operative Bank	7.50	NatWestminster	7.50		
Coutts & Co	7.50	●Rea Brothers	7.50		
Cyprus Popular Bank	7.50	Royal Bk of Scotland	7.50		
Duncan Lawrie	7.50	Scottish Widows Bank	7.50		
		●Singer & Friedlander	7.50		

Saudi Arabia cuts September oil shipments

By Robert Corzine

Oil prices were given a boost yesterday when Saudi Arabia, the world's biggest crude producer and exporter, announced deep cuts in its September shipments to its contract customers.

Brent Blend for September delivery was up 42 cents at $12.19 a barrel in late trading on London's International Petroleum Exchange.

The rise was largely attributed to the Saudi decision to cut contractual export liftings in September by 18 per cent, compared with an average 8-9 per cent for August.

Under the latest round of global production cuts orchestrated by the Organisation of Petroleum Exporting Countries, Saudi Arabia agreed to reduce its output by 725,000 barrels a day. Analysts said if the latest cut was applied across the board to Saudi contract sales, it could reduce the Kingdom's crude exports in September by 1.1m b/d.

Some observers interpreted the Saudi move as part of a policy of gradualism in dealing with the global supply glut that pushed crude prices to fresh 10-year lows this week.

"The Saudis are acting step by step," according to Robert Mabro, director of the Oxford Institute for Energy Studies. "They are not happy with this price and they're not happy with $14 either."

Mr Mabro thinks the Saudis may be willing to take unilateral action to help improve prices, but are unlikely to commit themselves to any course that could be interpreted as playing a swing role in the world oil market.

"I eve they are prepared to do something," said Mr Mabro yesterday. "But they'll ... it cautiously" and in a what will not allow other members to relax their production discipline.

The ... action coincided with ... that another big Opec ... member, Venezuela, is still 50,... b/d short of its promised ... of 520,000 b/d.

This ...'s price decline was prod... in part by the build-up of refined product stocks in the US, and a growing realisation that the rebalancing of such an over-supplied market would be gradual, barring any large-scale production disruptions.

Although there was a drop in gasoline inventories this week, stocks are generally well above last year's levels. A recent report from Philip Verleger, a US-based energy economist, pointed out that "product storage facilities are full or filling rapidly" in the US. He said the product surplus had depressed prices, which in turn had depressed refining margins.

"Not surprisingly, the demand for crude oil has also declined. Thus, the cut in world oil supply announced by Opec has been matched by a decline in the demand for crude oil by refiners."

Grasberg declares force majeure

MARKETS REPORT

By Kenneth Gooding

Grasberg in Indonesia, the world's biggest copper and gold mine, declared *force majeure* yesterday because of the strike that started on Tuesday. Freeport McMoRan Copper & Gold, which owns the mine, insisted it was meeting sales commitments from stockpiles.

Traders said copper on the London Metal Exchange was not affected by Grasberg's problems, but rose on the stronger yen. Copper for three-month delivery closed up $8 a tonne at $1,628.

Analysts remain divided about the 1998 copper market balance, with predictions ranging from "a small deficit of supply", by Asarco, the US producer, to surpluses of up to 350,000 tonnes forecast by consultancies such as Metal Bulletin Research, CRU International and Brook Hunt. They will all be watching LME stocks levels in the next few weeks for a guide.

Bloomsbury Minerals Economics, the specialist consultancy, in its Copper Briefing Service suggests this year's copper market surplus will be about 115,000 tonnes.

Peter Hollands of Bloomsbury says this rate of surplus would require LME stocks to rise by 25,000 tonnes a week very soon and stay at that rate throughout September.

"A slower rate would mean that our predicted surplus would need to be reduced or eliminated. A sustained higher rate would require it to be raised," he said.

Bloomsbury is forecasting that three-month copper will average US$1,695 a tonne this year, nearly 24 per cent below the 1997 average, but will rise slightly to average $1,720 next year.

IPE to probe natural gas price changes

By Robert Corzine

The International Petroleum Exchange in London is to investigate allegations from large energy users in the UK that natural gas futures prices are being manipulated.

The IPE yesterday said it had received a complaint from the Energy Intensive Users Group – a trade association for big industrial and commercial gas consumers – about rising prices at a time when many members are negotiating supply contracts for the next year.

The group claims recent gas price movements on the IPE "are all a bit spooky". It believes some big suppliers may be guilty of "gaming", or trying to raise prices temporarily in order to boost the value of the new contracts.

Industrial and commercial consumers have to pay an additional £140m in total for every tenth of a penny rise in the natural gas price. The prompt gas price on the IPE has risen by a penny over the past few days.

Many big gas contracts expire on October 1. Companies will have to sign new contracts over the next few days if they want to switch suppliers by October 1. That explains the suspicion about this week's price rises.

Last night, the IPE said: "We are aware of the rumours in the market and are looking into it."

Centrica, the biggest gas supplier, rejected suggestions that it might be behind the price rises. "Such allegations are completely unfounded," it said. Accord, Centrica's trading subsidiary, has been buying call options for the winter in order to cover its position.

Another big supplier said many factors were behind the price rise. "Many big buyers entered the summer structurally short," said an official. "There has been quite a lot of buying and filling up of storage."

He said suppliers had also been active in the market in anticipation of winning large industrial gas contracts.

Suppliers say part of the problem stems from the bunching of big annual gas contracts with an October 1 expiry date. The date is a carry-over from the British Gas monopoly, which started its "gas year" on October 1.

Some suppliers have advised corporate customers to drop the traditional buying pattern in order to avoid such problems.

Canada yet to gain from dearer gas

Expansion depends on costly expenditure on new finds, writes **Edward Alden**

With oil prices at 10-year lows, Canadian oil and gas producers have been handed a much needed windfall this year – rising prices for Canadian natural gas. But it is an opportunity most of them cannot truly exploit.

Spot prices for West Texas intermediate crude oil this week flirted with US$13 a barrel, down from more than $24 just a year ago. But Canadian natural gas spot prices, while volatile, are up about 20 per cent over a year ago to nearly C$2 (US$1.32) per thousand cubic feet.

Stronger gas prices have been driven by rising US demand and by anticipation of the completion later this year of pipelines that will allow Canadian producers to get more gas into the US market more cheaply.

The expansion of the Northern Border and Foothills pipelines from western Canada to the US Midwest will add about 15 per cent to current export capacity of about 8bn cu ft a day. The separate Alliance pipeline will add another 1.3bn cu ft of capacity by 2000 along a similar route.

That is expected to eliminate the historical differential between lower Alberta spot gas prices and higher US prices by allowing producers to deliver more gas directly into the US market. This will be a boon to the Canadian gas industry, which exports about 55 per cent of production.

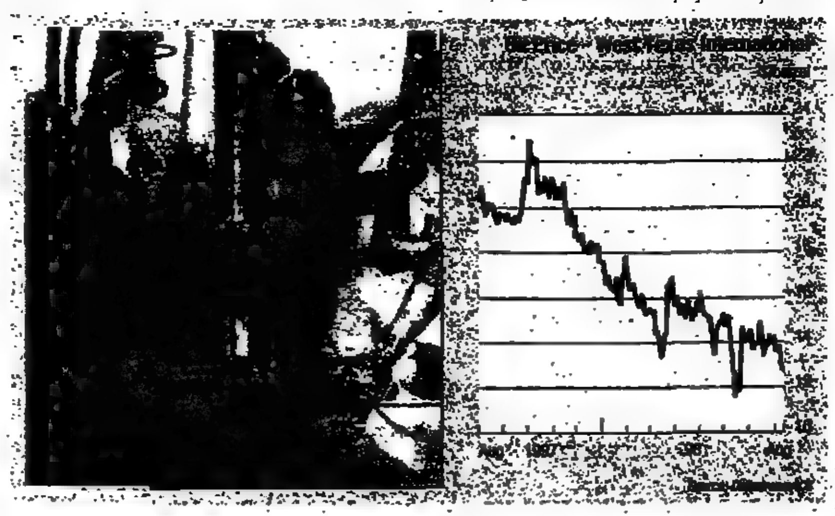
The gap had already shrunk to about 75 Canadian cents per thousand cubic feet last month from the traditional C$1 to C$2 differential. A cold winter this year is also expected to tighten supply and raise prices.

For western Canadian producers, strong gas prices are the only thing preventing a bad year from becoming catastrophic. Weak oil prices mean Canadian oil and gas company profits will fall 78 per cent this year, according to a forecast by FirstEnergy Capital, the Calgary broker.

"The industry's overall position would be a lot worse if gas prices weren't stable," says Robert Plexman, oil and gas analyst at broker CIBC Wood Gundy.

The problem is that few producers are well positioned to take advantage of rising gas prices.

With very few unexploited gas reserves, expanded production depends on new finds, which means costly expenditures on drilling.



Most Canadia...roducers are at best weig... equally between oil a...as, with many tilting t...rds oil, says John Clark...alyst at Deutsche Morga...nfell in Toronto.

The weak oil ... means cash-flows are do...harply, robbing compani... funds for gas drilling, ...xploration costs are ris...as the most promising de...ts are in deep pools in A...a and British Columbia.

The number of ...illing rigs in western Ca... last month was just 245, lowest since 1993, acco...to a report from FirstEn...

Nor do the mark...provide much opportu... to raise more cash...he Toronto Stock Exch...e's oil and gas inde...as dropped from more...n 8,000 last October to...0, the worst performance...e TSE's 14 industry grou...

The opportunities are there, however, for gas-weighted producers, such as Alberta Energy, Rio Alto Exploration and Poco Petroleums. Poco, 76 per cent weighted to gas, had record cash-flow of C$166m in the first half of 1998.

Of the large integrated oil and gas companies, Shell has the largest gas weighting at 45 per cent of its overall production, followed by Petro-Canada at 42 per cent, and Suncor and Imperial Oil with just 19 per cent and 14 per cent respectively.

"Most of the companies that are oil producers are staying the course and gas producers are salivating at the opportunities," says Robert Gillen, an analyst with John S. Herold.

One company that has changed its drilling profile is Talisman Energy, a former British Petroleum offshoot spun off in 1992. Anticipating strengthening prices as the pipelines neared, Talisman shifted its C$400m annual drilling programme from 60 per cent oil and 40 per cent gas in 1997 to the reverse this year.

That paid off with two gas discoveries in Alberta this month. The company expects daily gas production to rise from 550m cu ft in 1997 to 620m cu ft this year. However, these successes have not been enough to offset losses from low oil prices.

Second-quarter net income dropped from C$5m to C$1.9m, as Talisman's realised oil prices fell 27 per cent from a year earlier.

Still, in the current bear market for oil, increased gas production for the US market seems like the nearest thing to a sure winner left in the Canadian oil patch.

COMMODITIES PRICES

BASE METALS

LONDON METAL EXCHANGE
(Prices from Amalgamated Metal Trading)

■ ALUMINIUM, 99.7 PURITY ($ per tonne)

	Cash	3 mths
Close	1306-07	1326-27
Previous	1300.5-01.5	[illegible]
High/low		1329/1320
AM Official	1304-04.5	1323-24
Kerb close		1324-5
Open int.	259,627	
Total daily turnover	94,558	

■ ALUMINIUM ALLOY ($ per tonne)

	Cash	3 mths
Close	1160-65	1170-75
Previous	1145-55	1170-75
High/low		1175/1170
AM Official	1145-55	1165-75
Kerb close		1172-7
Open int.	6,721	
Total daily turnover	1,232	

■ LEAD ($ per tonne)

	Cash	3 mths
Close	538-9	547-7.5
Previous	533-4	543-3.5
High/low		548/542
AM Official	535-36	546-46.5
Kerb close		547-8
Open int.	36,718	
Total daily turnover	5,189	

■ NICKEL ($ per tonne)

	Cash	3 mths
Close	4105-15	4170-80
Previous	4035-45	4105-10
High/low		4190/4140
AM Official	4100-110	4165-70
Kerb close		4160-80
Open int.	54,640	
Total daily turnover	13,454	

■ TIN ($ per tonne)

	Cash	3 mths
Close	5765-75	5855-60
Previous	5755-65	5850-60
High/low		5870/5835
AM Official	5735-40	5835-40
Kerb close		5835/35
Open int.	15,279	
Total daily turnover	4,645	

■ ZINC, special high grade ($ per tonne)

	Cash	3 mths
Close	1028-29	1046-47
Previous	1019-20	1039-39.5
High/low		1047/1038
AM Official	1024-25	1043-44
Kerb close		1045-6
Open int.	90,228	
Total daily turnover	17,197	

■ COPPER, grade A ($ per tonne)

	Cash	3 mths
Close	1611.5-12.5	1632-33
Previous	1597-[illegible]	1619-20
High/low		1640/1612
AM Official	1602.5-3.5	1622-23
Kerb close		1627-8
Open int.	170,944	
Total daily turnover	49,717	

■ LME AM Official £/$ rate: 1.6287
LME Closing £/$ rate: 1.6280
Spot: 1.6367 3 mths: 1.6191 6 mths: 1.6114 9 mths: 1.6049

■ HIGH GRADE COPPER (COMEX)

	Sett price	Day's change	High	Low	Vol	Open int
Aug	72.55	-0.05	72.55	72.55	172	1,183
Sep	72.65	-0.10	73.80	72.35	6,102	23,376
Oct	72.95	-0.10	73.95	72.70	75	2,347
Nov	73.15	-0.10	74.20	74.10	42	1,615
Dec	73.45	-0.10	74.40	73.25	1,482	14,394
Jan	73.70	-0.20	-	-	15	1,852
Total						

PRECIOUS METALS

■ LONDON BULLION MARKET
(Prices supplied by N M Rothschild)

Gold(Troy oz)	$ price	£ equiv	SFr equiv
Close	284.60-285.10		
Opening	282.60-282.90		
Morning fix	282.70	173.809	420.940
Afternoon fix	283.40	174.647	421.274
Day's High	285.10-285.40		
Day's Low	282.40-282.70		
Previous close	283.30-283.80		

Loco Ldn Mean Gold Lending Rates (Vs US$)

1 month	4.84	6 months	4.11
2 months	4.74	12 months	4.04
3 months	4.65		

Silver Fix	p/troy oz.	US cts equiv.
Spot	313.85	510.50

Silver Lending Rates

1 month	3.00	6 months	1.50
2 months	2.50	12 months	1.25
3 months	2.25		

Gold Coins	$ price	£ equiv.
Krugerrand	284-288	175-177
New Sovereign	66-70	41-43

Precious Metals continued

■ GOLD COMEX (100 Troy oz.; $/troy oz.)

	Sett price	Day's change	High	Low	Vol	Open int
Aug	285.3	+2.5	285.5	282.7	104	837
Oct	286.9	[illegible]	287.3	[illegible]	1,712	11,299
Dec	289.3	+2.5	289.8	286.2	36,193	106.7k
Feb	291.2	+2.6	[illegible]	290.1	[illegible]	13,050
Apr	293.1	+2.6	291.7	291.7	11	9,166
Jun	295.0	+2.6	295.0	[illegible]	105	12,720
Total					[illegible]	[illegible]

■ PLATINUM NYMEX (50 Troy oz.; $/troy oz.)

	Sett price	Day's change	High	Low	Vol	Open int
Oct	377.5	+3.1	378.5	370.0	1,160	8,428
Jan	377.8	+3.1	373.5	371.5	2	846
Apr	377.8	+3.1	-	-	1	22
Jul	377.8	+3.1	-	-	22	5
Total					1,185	9,301

■ PALLADIUM NYMEX (100 Troy oz.; $/troy oz.)

	Sett price	Day's change	High	Low	Vol	Open int
Sep	284.00	-6.00	286.00	280.10	184	2,679
Dec	276.00	-4.00	279.00	272.00	76	1,061
Mar	271.00	-4.00	281.00	281.00	-	34
Total					[illegible]	3,796

■ SILVER COMEX (5,000 Troy oz.; Cents/troy oz.)

	Sett price	Day's change	High	Low	Vol	Open int
Sep	518.8	+4.8	520.0	504.0	13,162	38,995
Dec	522.8	+4.8	524.0	508.0	2,704	27,693
Jan	524.3	+4.8	-	-	-	30
Mar	526.0	+5.0	515.5	510.0	457	5,003
May	526.7	+5.0	527.0	527.0	16	1,707
Jul	528.4	+5.0	522.0	520.0	16	2,531
Total					[illegible]	82,104

ENERGY

■ CRUDE OIL NYMEX (1,000 barrels; $/barrel)

	Latest price	Day's change	High	Low	Vol	Open int
Sep	13.17	+0.46	13.50	12.69	38,635	100.7k
Oct	13.54	+0.42	13.82	13.10	23,947	81,397
Nov	13.90	+0.39	14.13	13.50	4,911	39,166
Dec	14.22	+0.39	14.42	13.82	4,381	51,280
Jan	14.46	+0.32	14.60	14.13	1,294	33,194
Feb	14.72	+0.31	14.77	14.41	1,443	18,703
Total					86,102	594,228

■ CRUDE OIL IPE ($/barrel)

	Open price	Day's change	High	Low	Vol	Open int
Sep	12.09	+0.32	12.35	11.90	23,987	30,609
Oct	12.41	+0.41	12.65	12.13	32,743	68,375
Nov	12.76	+0.42	12.90	12.45	5,927	23,621
Dec	13.04	+0.39	13.20	12.73	8,720	37,656
Jan	13.20	+0.33	13.30	12.97	782	29,043
Feb	13.41	+0.33	13.41	13.20	175	17,584
Total					n/a	n/a

■ HEATING OIL NYMEX (42,000 US galls; c/US galls)

	Latest price	Day's change	High	Low	Vol	Open int
Sep	35.20	+1.07	35.80	34.10	14,826	44,205
Oct	36.60	+0.93	37.20	35.76	8,116	27,734
Nov	38.30	+0.98	38.80	37.83	2,851	18,309
Dec	39.90	+0.88	40.15	38.70	3,587	24,360
Jan	41.25	+0.88	41.65	41.00	1,365	23,942
Feb	42.20	+0.88	42.55	42.00	1,055	14,516
Total					[illegible]	[illegible]

■ GAS OIL IPE ($/tonne)

	Sett price	Day's change	High	Low	Vol	Open int
Sep	108.25	+3.50	109.50	105.00	9,842	38,041
Oct	112.75	+3.00	114.00	110.25	3,075	21,841
Nov	116.50	+2.75	117.75	114.25	1,278	14,743
Dec	120.00	+2.75	121.25	117.75	2,151	37,070
Jan	[illegible]	+2.75	124.00	121.50	306	12,901
Feb	125.50	+2.75	126.50	123.00	682	11,076
Total					[illegible]	[illegible]

■ NATURAL GAS IPE (1,000 therms; pence per therm)

Sep	12.000	+0.650	12.490	11.950	910	2,960
Oct	[illegible]	+0.450	12.550	[illegible]	375	3,470
Total					280	n/a

■ NATURAL GAS NYMEX (10,000 mmBtu; $/mmBtu)

	Latest price	Day's change	High	Low	Vol	Open int
Sep	1.805	-0.014	1.830	1.775	17,392	50,448
Oct	1.845	-0.019	1.875	1.825	7,262	33,899
Nov	2.125	-0.009	2.140	2.100	3,725	[illegible]
Dec	2.400	-0.014	2.430	2.390	2,648	26,375
Jan	2.520	-0.012	2.540	2.510	2,010	25,076
Feb	2.450	[illegible]	2.460	2.440	958	16,254
Total					[illegible]	[illegible]

■ UNLEADED GASOLINE
NYMEX (42,000 US galls.; c/US galls.)

	Latest price	Day's change	High	Low	Vol	Open int
Sep	42.00	+1.33	42.75	40.70	17,765	41,470
Oct	41.45	+1.14	42.20	40.50	10,567	21,861
Nov	41.95	+1.16	42.40	41.80	1,516	[illegible]
Dec	42.50	+1.04	42.80	42.50	1,945	6,209
Jan	43.25	+0.97	43.55	43.20	143	3,380
Feb	44.10	+1.02	44.10	44.10	50	1,767
Total					[illegible]	[illegible]

GRAINS AND OIL SEEDS

■ WHEAT LIFFE (100 tonnes; £ per tonne)

	Sett price	Day's change	High	Low	Vol	Open int
Sep	71.00	+0.25	71.00	71.00	25	195
Nov	73.25	+0.20	73.50	73.00	137	3,536
Jan	75.25	+0.25	75.50	75.00	60	[illegible]
Mar	77.25	+0.25	77.50	77.00	101	1,001
May	79.25	+0.25	79.25	79.00	73	810
Total					[illegible]	7,297

■ WHEAT CBT (5,000bu min; cents/60lb bushel)

	Sett price	Day's change	High	Low	Vol	Open int
Sep	253.50	-0.75	260.75	253.00	7,490	37,850
Dec	271.50	-4.25	277.50	271.00	20,846	60,465
Mar	286.00	-6.00	293.00	285.50	3,642	19,643
May	294.00	-5.00	300.50	294.50	127	3,861
Jul	304.75	-3.25	309.50	304.00	424	7,282
Sep	313.00	-3.00	-	-	15	336
Total					[illegible]	[illegible]

■ MAIZE CBT (5,000 bu min; cents/56lb bushel)

	Sett price	Day's change	High	Low	Vol	Open int
Sep	206.75	-2.50	211.00	206.50	12,902	72,861
Dec	216.50	-2.25	220.25	216.25	40,380	163,178
Mar	228.75	-1.25	231.50	228.50	5,873	42,553
May	236.00	-1.50	238.75	235.75	1,677	13,464
Jul	241.25	-1.75	244.25	241.00	1,880	16,161
Sep	246.75	-1.50	247.50	246.50	711	2,339
Total					64,432	[illegible]

■ BARLEY LIFFE (100 tonnes; £ per tonne)

	Sett price	Day's change	High	Low	Vol	Open int
Sep	70.00	+0.30	70.00	70.00	10	51
Nov	73.00	+0.25	73.25	73.00	17	677
Jan	75.00	+0.25	75.25	75.00	[illegible]	[illegible]
Mar	76.85	+0.25	-	-	-	65
May	77.85	+0.25	-	-	-	23
Total					37	1,322

■ SOYABEANS CBT (5,000bu min; cents/60lb bushel)

	Sett price	Day's change	High	Low	Vol	Open int
Aug	556.50	-1.00	564.50	558.00	1,365	2,140
Sep	530.75	-4.75	539.50	528.00	6,903	16,609
Nov	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Jan	541.25	-2.00	548.00	539.50	2,219	12,173
Mar	551.75	-2.00	556.50	550.50	1,620	10,577
May	559.50	-2.25	564.00	558.50	416	2,853
Total					[illegible]	[illegible]

■ SOYABEAN OIL CBT (60,000lbs; cents/lb)

	Sett price	Day's change	High	Low	Vol	Open int
Aug	23.44	+0.18	23.46	23.30	1,475	2,811
Sep	23.52	+0.18	23.57	23.38	3,899	27,184
Oct	23.62	+0.17	23.65	23.48	2,102	16,403
Dec	23.76	+0.18	23.81	23.59	9,216	44,455
Jan	23.91	+0.18	23.93	23.75	1,218	6,066
Mar	24.09	+0.13	[illegible]	23.87	1,152	7,876
Total					28,128	112,298

■ SOYABEAN MEAL CBT (100 tons; $/ton)

	Sett price	Day's change	High	Low	Vol	Open int
Aug	137.9	-6.5	139.5	137.0	3,886	3,509
Sep	136.2	-2.6	139.3	136.2	7,359	23,369
Oct	136.2	-1.8	138.8	136.1	2,821	20,305
Dec	138.8	-2.1	141.6	138.8	11,057	61,720
Jan	141.0	-2.0	143.7	141.1	1,152	10,866
Mar	145.7	-1.3	147.5	145.5	2,256	9,634
Total					28,804	137,592

■ POTATOES LIFFE (20 tonnes; £ per tonne)

Nov	80.0	-	-	-	-	2
Mar	112.5	-	-	-	-	-
Apr	167.0	+4.0	167.0	165.0	26	2,260
May	177.8	+4.6	-	-	-	29
Jun	187.0	+4.0	-	-	-	-
Total					26	[illegible]

■ FREIGHT (BIFFEX) LIFFE ($10/index point)

Aug	790	+10	780	775	11	269
Oct	905	+20	905	890	10	494
Jan	953	+20	950	938	41	418
Apr	980	+10	-	-	-	280
Jul	870	+10	-	-	-	288
Total					61	[illegible]

	Close	Prev
BFI	780	780

PULP AND PAPER

■ PULPEX OMLX (US$; 24 air dry tons)

	Sett price	Day's change	High	Low	Vol	Open int
Sep	415.00	-8.00	421.00	413.00	67	384
Dec	450.00	-5.00	450.00	450.00	3	229
Total					70	[illegible]

FUTURES DATA
All futures data supplied by CMS.

Wool from Mallett & Co
Australian prices have held reasonably firm at auctions after last week's unexpected government decision to freeze all stockpile sales for the rest of the season. Moderate firmness may be the result of urgent covering by companies previously using the stockpile as a source of supply. The market indicator closed at 556 cents a kg, 7 cents higher on the week. The New Zealand sale scheduled for this week was postponed, and weakness at the two preceding auctions no doubt played a part in this. A Bradford auction of Scottish wool this week, the first for three months, saw prices up to 20 per cent lower.

SOFTS

■ COCOA LIFFE (10 tonnes; £/tonne)

	Sett price	Day's change	High	Low	Vol	Open int
Sep	1048	-2	1077	1047	3,080	26,446
Dec	1090	-2	1098	1076	2,921	46,630
Mar	1104	-2	1112	1103	1,183	41,475
May	1120	-2	1126	1121	34	14,266
Jul	1135	-2	1140	1136	62	7,972
Sep	1152	-2	1161	1152	612	[illegible]
Total					[illegible]	[illegible]

■ COCOA CSCE (10 tonnes; $/tonnes)

	Sett price	Day's change	High	Low	Vol	Open int
Sep	1526	-11	1534	1518	3,973	13,957
Dec	1565	-7	1580	1556	4,159	30,063
Mar	1606	-7	1616	1599	583	14,189
May	1633	-7	-	-	26	5,670
Jul	1650	-7	-	-	60	1,746
Sep	1667	-7	1665	1665	10	1,673
Total					[illegible]	[illegible]

■ COCOA (ICCO) (SDR's/tonne)

Aug 12	Price	Prev. day
Daily	n/a	1265.41

■ COFFEE LIFFE (5 tonnes; $/tonne)

	Sett price	Day's change	High	Low	Vol	Open int
Sep	1625	+19	1630	1596	1,701	16,181
Nov	1596	+13	1600	1581	1,330	13,108
Jan	1550	+6	1533	1543	116	2,496
Mar	1530	+6	1530	1523	80	1,680
May	1534	+6	1526	1526	26	256
Jul	1534	+6	1536	1535	-	63
Total					[illegible]	[illegible]

■ COFFEE 'C' CSCE (37,500lbs; cents/lbs)

	Sett price	Day's change	High	Low	Vol	Open int
Sep	118.85	-2.30	120.00	116.50	4,775	8,522
Dec	114.75	-1.25	117.25	114.70	3,761	11,286
Mar	114.25	-	115.00	114.00	808	5,158
May	114.75	-	115.50	114.75	113	2,334
Jul	115.25	-	116.25	115.75	24	1,857
Sep	116.25	+0.25	116.60	116.60	10	1,438
Total					[illegible]	[illegible]

■ COFFEE (ICO) (US cents/pound)

Aug 12		Prev. day
Comp. daily	100.22	102.22
15 day average	102.43	102.38

■ WHITE SUGAR LIFFE (50 tonnes; $/tonne)

	Sett price	Day's change	High	Low	Vol	Open int
Oct	249.8	+1.2	250.0	247.7	1,337	21,790
Dec	249.9	+1.2	249.7	248.4	620	6,705
Mar	253.2	+1.5	253.6	251.1	213	7,694
May	257.0	+1.6	255.1	255.0	50	1,976
Aug	260.0	+1.8	259.3	259.3	5	1,365
Oct	258.5	+0.5	262.2	262.2	25	[illegible]
Total					[illegible]	[illegible]

■ SUGAR '11' CSCE (112,000lbs; cents/lbs)

	Sett price	Day's change	High	Low	Vol	Open int
[illegible]	9.31	+0.09	9.33	9.15	77	5,815
Oct	8.71	+0.05	8.78	8.51	18,151	82,566
Mar	9.05	+0.03	9.16	8.93	3,953	42,987
May	9.19	+0.05	9.16	8.93	467	6,935
Jul	9.06	+0.16	9.13	[illegible]	322	6,073
Oct	9.23	+0.08	9.30	9.15	55	6,639
Total					[illegible]	[illegible]

■ COTTON NYCE (50,000lbs; cents/lbs)

	Sett price	Day's change	High	Low	Vol	Open int
Oct	73.39	+0.45	73.55	72.75	655	4,700
Dec	72.49	+0.52	72.58	71.80	6,958	36,622
Mar	72.75	+0.35	72.75	72.30	942	15,741
May	73.15	+0.25	73.15	72.70	221	8,151
Jul	73.65	+0.35	73.65	73.50	455	4,737
Total					9,482	[illegible]

■ ORANGE JUICE NYCE (15,000lbs; cents/lbs)

	Sett price	Day's change	High	Low	Vol	Open int
Sep	107.15	+0.45	108.60	106.40	5,409	13,527
Nov	110.25	+0.55	111.25	109.70	[illegible]	5,508
Jan	113.40	+0.50	114.00	113.00	60	2,552
Mar	115.35	+0.55	116.70	[illegible]	54	1,807
May	119.10	+0.55	-	-	10	626
Jul	121.65	+0.55	-	-	-	276
Total					6,203	[illegible]

VOLUME DATA
Open interest and Volume data shown for contracts traded on COMEX, NYMEX, CBT, NYCE, CME, CSCE and IPE Crude Oil are one day in arrears. Volume & Open interest totals are for all traded months.

INDICES

■ Reuters (Base: 18/9/31 = 100)

Aug 13	Aug 12	month ago	year ago
1527.3	1535.1	1538.8	[illegible]

■ CRB Futures (Base: 1967 = 100)

Aug 12	Aug 11	month ago	year ago
202.02	202.90	-	-

■ GSCI Spot (Base: 1970 = 100)

Aug 12	Aug 11	month ago	year ago
140.13	[illegible]	150.71	185.40

LME WAREHOUSE STOCKS (tonnes)

Aluminium	-775	to	461,975
Aluminium alloy	-	to	70,120
Copper	[illegible]	to	297,250
Lead	-25	to	[illegible]
Nickel	-108	to	59,744
Zinc	-1,475	to	366,175
Tin	+110	to	[illegible]

MEAT AND LIVESTOCK

■ LIVE CATTLE CME (40,000lbs; cents/lbs)

	Sett price	Day's change	High	Low	Vol	Open int
Aug	60.850	+0.425	60.925	60.400	8,154	6,103
Oct	61.050	+0.450	61.350	60.500	11,582	45,157
Dec	62.525	+0.573	62.675	61.950	2,706	17,456
Feb	63.900	+0.400	64.125	63.475	740	11,124
Apr	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Jun	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Total					[illegible]	[illegible]

■ LIVE HOGS CME (40,000lbs; cents/lbs)

	Sett price	Day's change	High	Low	Vol	Open int
Aug	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Oct	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Dec	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Feb	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Apr	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Jun	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Total					[illegible]	[illegible]

■ PORK BELLIES CME (40,000lbs; cents/lbs)

	Sett price	Day's change	High	Low	Vol	Open int
Aug	[illegible]	+3.000	58.925	58.925	[illegible]	1,654
Feb	[illegible]	+2.550	61.900	59.800	982	2,744
Mar	[illegible]	+2.600	61.000	60.100	1	16
Total					[illegible]	[illegible]

LONDON TRADED OPTIONS

Strike price $ tonne	Calls		Puts	
■ ALUMINIUM (99.7%) LME	Sep	Nov	Sep	Nov
1250	66	3	105	18
1300	29	18	71	31
[illegible]	8	45	46	[illegible]
■ COPPER (Grade A) LME	Sep	Dec	Sep	Dec
1500	117	4	156	38
1600	43	28	94	67
1700	9	95	81	122
■ COFFEE LCE	Sep	Nov	Sep	Nov
1550	80	76	5	49
1600	38	50	14	67
1650	10	37	35	101
■ COCOA LCE	Sep	Dec	Sep	Dec
1050	10	81	12	31
1075	2	48	29	43
1100	1	36	52	55
■ BRENT CRUDE IPE	Oct	Nov	Oct	Nov
1200	-	-	36	41
1250	[illegible]	-	-	-
1300	31	-	-	-

LONDON SPOT MARKETS

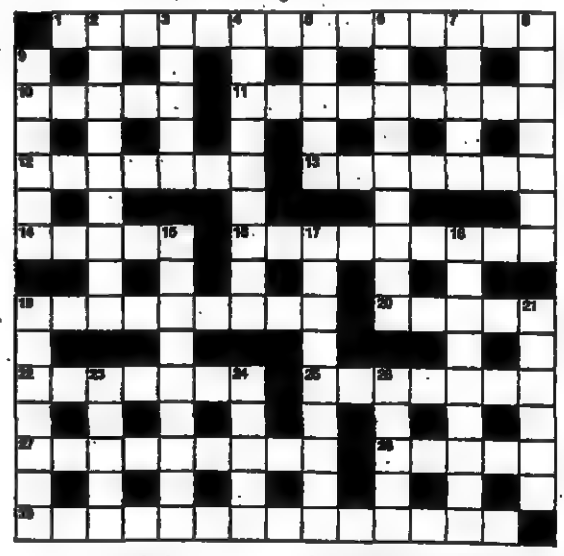
■ CRUDE OIL FOB (per barrel)		+or-
Dubai	$12.44-2.55	+0.645
Brent Blend (dated)	$11.59-1.69	+0.335
Brent Blend (Sep)	$12.13-2.23	+0.335
W.T.I.	$13.20-3.24x	
■ OIL PRODUCTS NWE prompt delivery CIF (tonne)		
Premium Gasoline	$155-158	+1
Gas Oil	$106-107	+4
Heavy Fuel Oil	$80-82	
Naphtha	$123-127	+0.5
Jet fuel	$118-119	+7
Diesel	$112-113	+2
■ NATURAL GAS (Pence/therm)		
Bacton (Sep)	[illegible]-12.05	+0.70
Petroleum Argus Tel. London	[illegible]	
■ OTHER		
Gold (per troy oz)‡	$284.85	+1.30
Silver (per troy oz)‡	[illegible]	-14.00
Platinum (per troy oz.)	[illegible]	-6.50
Palladium (per troy oz.)	[illegible]	-5.00
Copper	[illegible]	
Lead (US prod.)	[illegible]	
Tin (Kuala Lumpur)	[illegible]	
Tin (New York)	[illegible]	
Cattle (live weight)	[illegible]	+0.65*
Sheep (live weight)	[illegible]	-8.11*
Pigs (live weight)†	[illegible]	-7.79*
Lon. day sugar (raw)	[illegible]	-7.50
Lon. day sugar (wte)	[illegible]	-3.50
Barley (Eng. feed)	[illegible]	
Maize (US No3 Yellow)	[illegible]	
Wheat (US Dark North)	[illegible]	
Rubber (Sep)▼	[illegible]	
Rubber (Oct)▼	[illegible]	
Rubber (KL RSS No1)	[illegible]	
Coconut Oil (Phil)§	[illegible]	+5.0
Palm Oil (Malay.)§	[illegible]	
Copra (Phil)§	[illegible]	+2.5
Soyabeans (US)	[illegible]	
Cotton Outlook'A' index	[illegible]	
Wooltops (64s Super)	[illegible]	

[illegible]

JOTTER PAD

CROSSWORD

No.9,760 Set by DOGBERRY



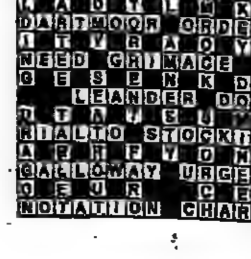
ACROSS

1 Old git left rubbish out as symbol of national pride (7,7)
10 Make a big push for endless bliss (5)
11 Thinking a lot of oneself for cooking mango pies? (9)
12 Street artist of sorts, a less than fragrant character (7)
13 Desire to get both hands round a purgative (7)
14 Pole swallowed another's behind (5)
16 Native boor swapping verse for book (9)
19 Irregular seaman turning copper and tin into beverage (9)
20 Demand recompense for past deed (5)
22 Legislation backed by the king and queen's footmen (7)
25 Attitude to last year's fashion? (7)
27 Declaration of second domestic under canvas (9)
28 Open country with no milk (5)
29 Mystic line in tough, eager young man's bike (6,8)

DOWN

2 Credible article is rewritten (9)
3 Pinch women in the wood (5)
4 Island with violations on the up may be detached (9)
5 Shallow and false god swallowing source of Nile (5)
6 Member is overdue to fulfil members' function (9)
7 Comparatively dull tumbler or spinner (5)
8 Willing beginner on an oriental instrument (7)
9 Picked companion's broken nose (6)
15 Deadlock as nation admits the French graduate (9)
17 Poet getting right into yellow box containing nothing (9)
18 Returning Arab artist to lover (9)
19 Entrance of malicious woman devouring heart of newt (7)
21 Attractive epithet encapsulating the family (6)
23 Unsuccessful player taking polo seriously? Not entirely (5)
24 Exceed limit on drug (5)
25 Origins of the epistle Paul initially directed to the Laodiceans, say (5)

Solution 9,759



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Offshore Insurances and Other Funds

OTHER OFFSHORE FUNDS

LONDON SHARE SERVICE

ALCOHOLIC BEVERAGES

	Notes	Price	+ or -	52 week high	52 week low	Volume '000s	Yld Gr's	P/E
Allied Domecq	¶¶	535	-3	648	414	1,803	4.5	13.6
Bulmer (HP)		332xd	-1	485½	295	36	5.3	15.2
Burn Stewart	‡	11	—	59½	8½	7	19.3	–
Diageo		659½xd	-7½	795	432	4,838	3.4	28.7
Glenmorangie A		880	—	976½	755	–	2.1	30.0
B		937½	—	1000	890	–	0.9	43.7
Highland	†	229½	-1	277	247	55	4.5	11.6
5¼pc Cv Sb Bd		96	—	99½	85½	–	6.2	–
Kirin Y		495	-11	888	476½	–	1.1	–
Matthew Clark		174xd	-5	288	157	17	9.3	5.9
Merrydown		37½	-1	74½	37½	–	–	Φ
Seagram C$		£20¼	+1¼	£28¾	£18½	–	1.3	–

BANKS, RETAIL

[illegible]

BREWERIES, PUBS & REST

[illegible]

BUILDING MATS. & MERCHANTS

[illegible]

CHEMICALS

[illegible]

CONSTRUCTION

[illegible]

CONSTRUCTION - Continued

[illegible]

DISTRIBUTORS

[illegible]

DIVERSIFIED INDUSTRIALS

[illegible]

ELECTRICITY

[illegible]

ELECTRONIC & ELECTRICAL EQPT

[illegible]

ENGINEERING

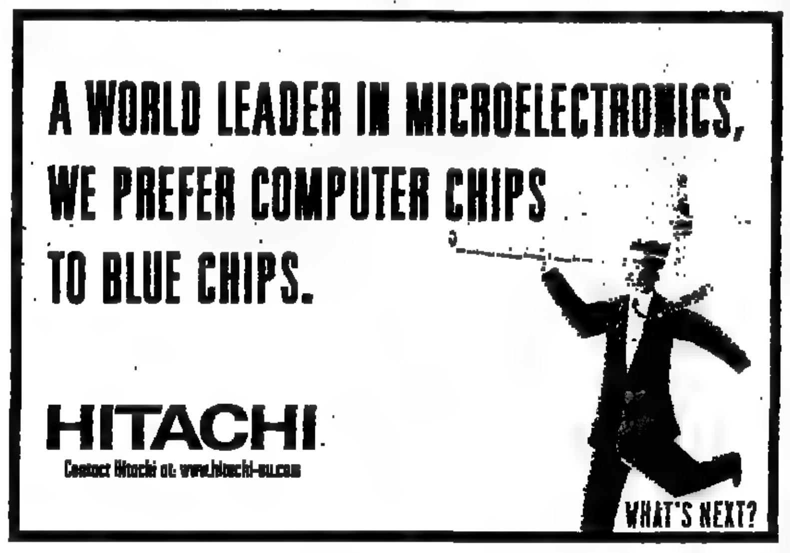
[illegible]

ENGINEERING - Continued

[illegible]

ENGINEERING, VEHICLES

[illegible]



ENGINEERING, VEHICLES - Continued

[illegible]

EXTRACTIVE INDUSTRIES

[illegible]

FOOD PRODUCERS

[illegible]

GAS DISTRIBUTION

[illegible]

HEALTH CARE

[illegible]

HOUSEHOLD GOODS & TEXT

[illegible]

HOUSEHOLD GOODS & TEXT - Continued

[illegible]

INSURANCE

[illegible]

INSURANCE - Continued

[illegible]

INVESTMENT TRUSTS

[illegible]

INVESTMENT TRUSTS - Continued

[illegible]

INV TRUSTS SPLIT CAPITAL

[illegible]

هکذا مستاصل

LONDON SHARE SERVICE

INV TRUSTS SPLIT CAPITAL - Continued

OTHER INVESTMENT TRUSTS

INVESTMENT COMPANIES

LEISURE & HOTELS

LIFE ASSURANCE

MEDIA

MEDIA - Continued

OIL, EXPLORATION & PRODUCTION

OIL, INTEGRATED

OTHER FINANCIAL

PAPER, PACKAGING & PRINTING

PHARMACEUTICALS

PROPERTY

PROPERTY - Continued

RETAILERS, FOOD

RETAILERS, GENERAL

RETAILERS, GENERAL - Continued

SUPPORT SERVICES

SUPPORT SERVICES - Continued

TELECOMMUNICATIONS

TOBACCO

TRANSPORT

TRANSPORT - Continued

WATER

AIM

AIM - Continued

AMERICANS

CANADIANS

SOUTH AFRICANS

TRADED INDEX SECURITIES

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Russian fears prompt another big fall in Footsie

MARKET REPORT

By Peter John

The FTSE 100 index fell again yesterday to leave it almost 13 per cent below its peak of less than three weeks ago.

The magnitude of the downturn has finally generated the market equivalent of genetic mutation. As the headline index fell 62.7 to 5,399.5, one reluctant bear has turned bullish – BT Alex Brown.

Towards the end of June, the broker published a note entitled "It's all going horribly wrong". Back then, strategist Bob Semple argued: "The UK equity market will remain a roller coaster ride over the next few months. With cash currently offering 7.5 per cent it remains the best place to put new money."

Yesterday, the mood at Bishopsgate had changed and Mr Semple sunnily exclaimed: "Investors should now start to buy the UK into the current market fragility, and we no longer expect it to underperform the rest of Europe."

He said Wednesday's earnings data made the latest inflation report from the Bank of England "instantly redundant" and it was now much more likely that interest rates had peaked.

Mr Semple's optimism was borne out by the underlying tone in the market.

Dealers said there was very little genuine selling, and one trader said two-thirds of the day's orders had been buys.

"Share prices might be tumbling but whenever I speak to the big institutions they say it is very quiet," said the head of sales at one broker.

"I was around in 1987 and just before the crash it was completely different. Then you were snowed under with orders," he said.

However, the argument was not backed by the headline performance of the leading indices.

The Footsie future, which has an estimated fair value calculated at about 30 points above the prevailing level of the FTSE 100, was trading 90 points below the cash market just before it opened.

The heavy fall was a response to comments by George Soros, the billionaire financier, about the state of Russia, and it set the tone for the day.

Footsie was off 112 points on very little volume shortly after the start of trading and spent the rest of the session trying to recover.

It was hampered domestically by heavy selling of the midcap stocks which ensured the FTSE 250 index ended the day 59.7 lower at 5,154.

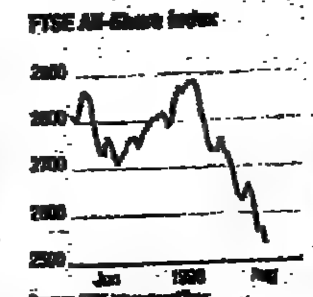
At that level it is 8 per cent above its close on the last day of 1997, while Footsie is only 5 per cent above its year-end close.

Dealers said that, while selling pressure on the Footsie has faded, it was intense in the midcap index and had driven the price of selected stocks to a level where they appeared very cheap to overseas predators.

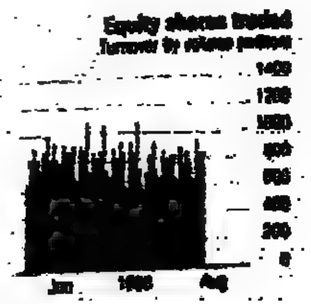
"Every institution wants to sell the midcap and some of the smaller companies are now a steal to foreign buyers," said one dealer.

Elsewhere, the SmallCap index ended 26.6 down at 2,333.1.

Overall turnover was 845.4m although turnover was boosted by heavy trade for the third day in BP and Shell, which accounted for 100m shares.



FTSE All-Share Index



Equity shares traded — Turnover by volume

Indices and ratios

FTSE 100	5399.5	-62.7
FTSE 250	5154.0	-59.7
FTSE 350	2606.7	[illegible]
FTSE All-Share	2539.67	[illegible]
FTSE All-Share yield	3.13	[illegible]
FT 30	3470.2	[illegible]
FTSE Non Fins p/e	[illegible]	[illegible]
FTSE 100 Fut Sep	[illegible]	[illegible]
10 yr Gilt yield	[illegible]	[illegible]
Long gilt/equity yld ratio	[illegible]	[illegible]

Best performing sectors: [illegible]

Worst performing sectors: [illegible]

Fairey up on bid rumours

COMPANIES REPORT

By Martin Brice and Joel Kibazo

Rumours that Siebe was lining up a bid for Fairey surfaced in the last hour of trading and prompted heavy dealing as traders scrambled for stock.

Although some dealers dismissed the speculation, there was active business on the back of the story – just a handful of shares had been traded until late in the day. Much of the 1.3m Fairey shares dealt changed hands in the last hour, and the stock closed up almost 20 per cent, or 55 at 339p.

Shares in both companies have come under pressure as investors have deserted engineers exposed to Asian troubles and sterling strength in favour of more defensive stocks.

Fairey reached 590p earlier this year before it warned in March that its instrumentation side was experiencing difficulties. Siebe, which yesterday fell 41 to 962p, had reached £15.35 before highlighting Asian troubles.

If there is truth in the story, it would be the second approach to an engineering company that has prompted a market reaction in the past week. Charter was up 12½ at 583p after rebuffing an approach for its specialised engineering side.

BTR gained 1¾ to 157¼p on speculation that KKR, the US buy-out group, had plans to take a stake in the company.

Brewing and hotels company Vaux Group tumbled after it quashed recent speculation suggesting it was in merger talks or discussions that could lead to a disposal.

The shares have performed strongly recently, boosted initially by rumours of a bid for Vaux with Whitbread or Greenalls cited among the possible predators.

Other theories have been a Vaux disposal of its Swallow hotels chain, while Enterprise Inns said in June it would be interested in buying the tenanted pub estate of Vaux. Yesterday Vaux said it was "not in any discussions which may lead to an offer for the company or which relate to any of the group's assets".

The shares responded by surrendering 41 or 11.4 per cent to 318½p. Those of Whitbread fell 17 to 821p, while Greenalls Group eased 2½ to 432½p. Stakis eased ½ to 104½ and Enterprise Inns hardened to 305½p.

Sun Life & Provincial was the best performer in the FTSE 100. The shares rose 35 or nearly 7 per cent to 536p after Goldman Sachs, the US investment bank, upgraded the stock from "market performer" to "market outperformer" following the recent fall in the share price. Goldman set a near-term share price target of 572p.

Standard Chartered fell 33½ to 573½p, while Bank of Scotland eased 21½ to 594½p. Barclays fell 63 to £15.57.

BSkyB was among a handful of Footsie constituents that resisted the downward trend as the market appreciated the group's aggressive marketing plans for the launch of its digital service in the autumn. The shares gained a further 18 to 446p, in trade of 6.4m.

SG Securities advised clients to "buy" the stock while Lehman Brothers rates them "outperform".

Chassis maker Dennis continued to lose premium to the 450p offer from engineering group Mayflower. The shares have stood strongly above the bid price since Volvo of Sweden stepped in and supported the attempt by Henlys to merge with Dennis.

The Henlys extraordinary meeting is scheduled for Monday for shareholders to agree the merger, and there may be a statement from the company then on how it plans to take the bid forward. Dennis shares were off 2 at 461½p, while Mayflower firmed to 177p. Henlys was static at 565p.

BAA resisted the market trend in morning trading, as the stock rose 8p following passenger figures that showed a 9.2 per cent rise year-on-year. However, they lost their shine in later dealings, and closed down 5½ at 634½p.

Sema gained 20 to 610p, following the announcement that Mercury Asset Management had acquired an 11 per cent stake in the company.

WPP was up 6½ at 386½p ahead of results on Monday that are expected to show a pre-tax advance of about 15 per cent.

Tesco tumbles

Supermarket group Tesco continued Wednesday's slide as a series of analysts' meetings with the company raised further fears of profit downgrades.

On Wednesday, joint brokers BT Alex Brown and Morgan Stanley Dean Witter cut current year profit estimates by 2 per cent and by 4 per cent for next year. The shares fell 5½ to 166p, after heavy trading of 30m.

However, the two brokers are believed to be maintaining their previous recommendations on the stock. Morgan Stanley rates it "outperform" while BT Alex Brown is a buyer of the shares.

In the rest of the sector, J Sainsbury eased a penny to 504p, while Safeway fell 6½ to 328½p. Asda Group eased 1½ to 188½p.

Danka Business Systems fell heavily as the office equipment group said the difficulties experienced in changing its US copier business had been "greater than we initially expected". The shares dropped 16½ to 132½p.

The company, which issued a profits warning in June, said the first-quarter results were "disappointing". Analysts had been looking for about £15m pre-tax, down from £20m in the same period the time before. The figure came out at £8.1m.

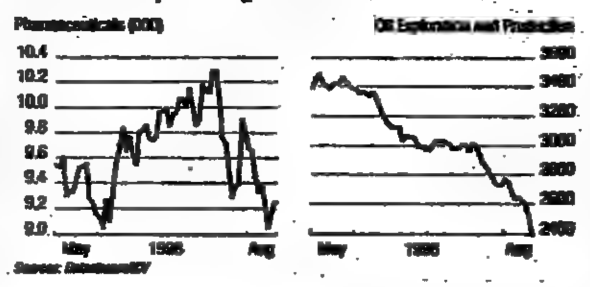
Broker Panmure Gordon was said to be behind the advance in Centrica. The shares improved 2½ to 90½p. Dealers said Panmure Gordon reiterated a "strong buy" recommendation and set a 12-18 month share price target of 170p.

Gearbox maker Antonov benefited from the recent "buy" note from Credit Lyonnais that set a 300p price target on the shares, which rose 18½ to 113½p.

MMS Petroleum, the Aim-traded oil explorer, was marked up a penny after a bullish trading statement but closed unchanged at 29½p.

A profits warning from Portmeirion Potteries sent its shares down 12½ to 190p and took its toll on its peers. The company, which warned in June that interim figures would be lower than the same period the time before, unveiled a 62 per cent profit fall and said the full-year result would be significantly lower. It said much of the industry had suffered tougher trading.

Best and worst performing FTSE sectors



Source: Datastream/ICV

FT 30 INDEX

	Aug 13	Aug 12	Aug 11	Aug 10	Aug 7	Yr ago	*High	*Low
FT 30	3470.2	3515.7	[illegible]	3587.7	3582.1	[illegible]	[illegible]	3448.8
Ord. div. yield	3.10	3.07	[illegible]	3.01	2.98	[illegible]	4.22	2.72
P/E ratio net	21.80	21.82	21.72	22.30	22.78	18.80	25.41	15.80
P/E ratio nil	[illegible]	[illegible]	21.64	22.21	22.67	18.61	[illegible]	15.71

FT 30 since compilation: high [illegible] low 49.4 [illegible] Base Date: 1/7/35.

FT 30 hourly changes

9	10	11	12	13	14	15	16	High	Low
3515.7	3487.4	3480.2	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	3515.7	3448.8

STOCK MARKET TRADING DATA

	Aug 13	Aug 12	Aug 11	Aug 10	Aug 7	Yr ago
SEAQ bargains	60,006	60,087	65,094	49,757	55,494	44,886
Equity turnover (£m)†	-	3500.9	3276.8	2626.2	2888.3	2986.9
Equity bargains†	-	48,310	46,922	39,835	43,074	50,030
Shares traded (m)†	-	748.4	705.8	646.3	703.2	669.0
Total market bargains‡	-	83,220	80,510	49,942	56,698	-
Total turnover (£m)‡	-	4951.9	4524.7	3405.1	[illegible]	-
Total shs traded (m)‡	[illegible]	1051.8	948.8	798.1	682.5	-
Tradepoint turnover (£m)	120.8	77.6	28.2	13.9	14.1	2.9
Tradepoint shs traded(m)	[illegible]	19.9	11.3	4.5	6.0	1.4

†Excluding intra-market [illegible] ‡Including [illegible]

■ London market data

Rises and falls*		52 Week highs and lows		LIFFE Equity options	
Total Rises	372	Total Highs	12	Total contracts	34,632
Total Falls	1,411	Total Lows	271	Calls	13,352
Same	1,168			Puts	21,280

Aug 13 *Data based on Equity shares listed on the London Share Service.

FUTURES AND OPTIONS

■ FTSE 100 INDEX FUTURES (LIFFE) £10 per full index point

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Sep	5430.0	5385.0	-100.0	5470.0	5362.0	30826	196136
Dec	5546.0	5463.0	-101.0	5486.0	5448.0	317	16816
Mar		5526.0	-100.0			0	1145

■ FTSE 250 INDEX FUTURES (LIFFE) £10 per full index point

Sep	5210.0	-89.0	3	1882

■ FTSE 100 INDEX OPTION (LIFFE) (*5376) £10 per full index point: [illegible]

■ EURO STYLE FTSE 100 INDEX OPTION (LIFFE) £10 per full index point: [illegible]

LONDON RECENT ISSUES: EQUITIES

[illegible]

RIGHTS OFFERS

[illegible]

FTSE GOLD MINES INDEX

	Aug 13	% chg on day	Aug 12	Year ago	Gross div yield %	P/E ratio	52 week High	Low
Gold Mines Index (26)	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Africa (16)	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Australasia (7)	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Americas (11)	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

FTSE Actuaries Share Indices — The UK Series

Produced in conjunction with the Faculty and Institute of Actuaries

	Aug 13	Day's chge%	Aug 12	Aug 11	Year ago	Gross yield%	Net yield%	Net cover	P/E ratio	Xd adj. ytd	Total Return
FTSE 100	5399.5	-1.1	5462.2	5432.8	4891.3	3.09	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
FTSE 250	5154.0	-1.1	5213.7	5202.3	4689.9	3.20	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
FTSE 250 ex Inv Tr	5199.1	-1.2	5261.9	5253.9	4680.1	3.30	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
FTSE 350	2606.7	-1.1	2639.0	2625.4	2404.1	3.11	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

■ FTSE Actuaries Industry Sectors: [illegible]

■ Hourly movements: [illegible]

FTSE INTERNATIONAL

TRADING VOLUME

■ Major Stocks yesterday

[illegible]

Highs & Lows shown on a 52 week basis

WORLD STOCK MARKETS

EUROPE

FT/S&P ACTUARIES WORLD INDICES

The FT/S&P Actuaries World Indices are owned by FTSE International Limited, Goldman, Sachs & Co. and Standard & Poor's. The Indices are compiled by FTSE International and Standard & Poor's in conjunction with the Faculty of Actuaries and the Institute of Actuaries.

NATIONAL AND REGIONAL MARKETS Figures in parentheses show number of lines of stock	WEDNESDAY AUGUST 12 1998 US Dollar Index	Day's Change %	Pound Sterling Index	Yen Index	DM Index	Local Currency Index	Local % chg on day	Gross Div. Yield	TUESDAY AUGUST 11 1998 US Dollar Index	Pound Sterling Index	Yen Index	DM Index	Local Currency Index	DOLLAR INDEX 52 week High	52 week Low	Year ago (approx)
Australia (73)	175.88	0.4	160.04	162.31	162.28	196.12	-0.2	3.80	175.09	158.97	162.65	162.14	196.47	238.24	173.27	230.30
Austria (22)	221.15	0.5	201.25	204.10	204.04	203.90	0.1	1.68	220.12	199.86	204.73	203.85	203.72	253.73	181.60	197.23
Belgium (22)	378.87	1.1	344.78	349.67	349.56	341.97	0.8	2.00	374.65	340.18	348.48	346.96	339.30	398.52	234.33	239.86
Brazil (26)	179.50	-4.5	163.35	165.66	165.61	388.77	-4.3	2.99	187.85	170.56	174.72	173.97	404.05	308.59	179.50	284.82
Canada (119)	200.62	3.3	182.56	185.15	185.10	220.20	3.0	1.65	194.15	176.28	180.58	179.80	213.81	248.78	194.15	217.64
Denmark (34)	467.09	1.6	425.05	431.08	430.96	429.35	1.2	1.51	459.68	417.38	427.54	425.70	424.21	537.33	375.32	383.18
Finland (28)	448.52	4.2	408.16	413.95	413.83	507.83	3.8	1.81	430.39	390.77	400.30	398.58	489.09	506.48	287.59	306.73
France (78)	309.48	2.9	281.63	285.62	285.54	288.79	2.5	2.18	300.79	273.10	279.76	278.55	281.75	345.18	217.48	225.83
Germany (56)	283.89	2.7	258.35	262.01	261.93	261.93	2.3	1.22	276.38	250.94	257.06	255.95	255.95	325.61	204.89	231.66
Greece (37)	309.36	0.1	281.53	285.53	285.44	655.30	0.1	1.44	308.92	280.48	287.33	286.09	654.92	333.20	260.24	-
Hong Kong, China (66)	203.26	0.7	184.97	187.59	187.53	202.21	0.7	7.70	201.83	183.25	187.72	186.91	200.81	569.81	201.83	565.64
Indonesia (27)	28.52	0.9	25.95	26.32	26.31	230.07	0.1	2.94	28.28	25.67	26.30	26.19	229.85	202.86	23.58	202.66
Ireland (16)	502.78	0.1	457.54	464.03	463.89	501.44	-0.1	1.88	502.34	456.09	467.22	465.20	502.13	580.44	359.60	373.02
Italy (54)	163.61	1.8	148.88	151.00	150.95	213.91	1.4	1.38	160.70	145.90	149.46	148.82	210.85	184.49	97.41	98.66
Japan (480)	83.84	0.3	76.30	77.38	77.36	77.38	-0.5	1.02	83.63	75.93	77.78	77.45	77.78	132.92	83.04	131.61
Malaysia (106)	86.26	2.7	78.50	79.61	79.59	139.54	1.5	4.50	84.01	76.28	78.14	77.80	137.59	407.41	84.01	394.40
Mexico (29)	1110.47	-1.6	1010.53	1024.87	1024.58	11157.83	-1.8	2.44	1128.01	1024.16	1049.15	1044.62	11365.55	1901.98	1110.47	1790.62
Netherlands (27)	485.83	1.9	442.11	448.38	448.25	443.68	1.6	2.01	476.65	432.78	443.32	441.41	436.86	562.38	365.56	420.72
New Zealand (14)	56.45	-2.3	51.37	52.10	52.08	59.54	-2.6	5.11	57.76	52.44	53.72	53.49	61.15	95.87	56.33	88.24
Norway (38)	269.87	-1.0	245.58	249.06	248.99	278.91	-1.5	2.25	272.51	247.42	253.46	252.36	281.17	374.64	269.87	328.65
Philippines (22)	52.76	-4.0	48.02	48.70	48.68	113.86	-5.1	1.48	54.98	49.92	51.14	50.91	120.01	140.21	52.76	139.85
Portugal (18)	267.68	2.1	243.59	247.04	246.97	332.74	1.9	0.96	262.13	237.99	243.80	242.75	326.90	299.39	261.25	-
Singapore (42)	130.14	0.1	118.43	120.11	120.08	104.91	-0.5	2.88	129.99	118.02	120.90	120.38	106.48	342.96	129.99	342.98
South Africa (40)	183.17	2.0	166.69	169.05	169.00	253.82	1.2	3.51	179.63	163.09	167.07	166.35	250.68	356.35	179.63	356.35
Spain (31)	378.98	2.0	344.88	349.77	349.67	432.43	1.6	1.76	371.68	337.46	345.70	344.21	425.85	417.73	236.28	244.92
Sweden (46)	526.59	-2.0	479.20	486.00	485.86	630.28	1.9	1.88	516.33	468.80	480.24	478.16	621.98	628.19	439.98	512.39
Switzerland (28)	407.74	2.7	371.04	376.30	376.19	374.60	2.3	1.11	396.93	360.38	369.18	367.58	366.32	439.46	285.85	307.68
Thailand (37)	9.73	1.4	8.85	8.98	8.97	15.80	0.0	5.97	9.59	8.71	8.92	8.88	15.80	59.11	9.59	58.72
United Kingdom (210)	348.10	0.3	316.77	321.27	321.17	316.77	0.5	3.14	347.10	315.14	322.83	321.44	315.14	401.84	303.41	314.71
USA (626)	443.85	1.4	403.91	409.64	409.52	443.85	1.4	1.46	437.50	397.22	406.91	405.16	437.50	488.88	358.31	375.85
Americas (800)	397.20	1.4	361.46	366.58	366.48	338.54	1.4	1.49	391.51	355.48	364.14	362.57	331.76	437.03	326.79	343.77
Europe (749)	341.72	1.7	310.97	315.38	315.29	323.40	1.5	2.10	336.14	305.19	312.64	311.29	318.73	388.24	265.25	276.70
Eurobloc (352)	100.49	2.3	91.44	92.74	92.71	100.26	1.9	1.70	98.20	89.16	91.34	90.94	98.34	113.28	98.20	-
Nordic (149)	474.47	2.1	431.77	437.90	437.77	489.54	1.6	1.82	464.53	421.76	432.06	430.19	481.87	555.97	388.51	431.33
Pacific Basin (867)	88.19	0.3	80.26	81.40	81.37	81.34	-0.4	1.83	87.93	79.83	81.78	81.43	81.67	150.25	87.93	149.55
Euro-Pacific (1615)	193.89	1.3	176.44	178.94	178.89	172.86	1.0	2.09	191.38	173.77	178.01	177.24	170.99	220.19	172.03	202.83
North America (745)	427.72	1.5	389.23	394.75	394.63	428.60	1.5	1.48	421.31	382.52	391.85	390.16	422.23	469.20	349.06	366.05
Europe Ex. UK (539)	325.92	2.3	296.59	300.79	300.70	316.38	1.9	1.62	318.57	289.24	296.30	295.02	310.45	366.32	236.79	249.80
Europe Ex. Eurobloc (396)	91.69	0.9	83.44	84.62	84.60	93.31	0.9	2.53	90.83	82.46	84.48	84.11	92.43	103.93	90.89	-
Europe Ex. UK Ex. Eurobloc (186)	98.03	2.2	89.21	90.48	90.45	98.99	1.8	1.37	95.88	87.06	89.18	88.80	97.15	109.21	95.88	-
Pacific Ex. Japan (387)	135.99	0.5	123.75	125.51	125.47	144.85	0.1	6.16	135.32	122.86	125.86	125.31	144.77	304.03	135.32	302.89
World Ex. Eurobloc (2103)	92.58	1.2	84.25	85.45	85.42	94.43	1.1	1.75	91.49	83.06	85.09	84.72	93.41	103.16	91.49	-
World Ex. US (1829)	194.18	1.3	176.71	179.22	179.16	177.31	1.0	2.04	191.65	174.00	178.25	177.48	175.56	221.91	175.30	206.76
World Ex. UK (2245)	267.88	1.5	243.59	247.05	246.98	248.09	1.3	1.59	263.68	239.40	245.24	244.18	244.86	298.02	234.24	255.56
World Ex. Japan (1975)	369.54	1.5	336.28	341.05	340.95	365.00	1.4	1.61	364.05	330.53	338.60	337.14	359.91	411.23	309.33	326.45
The World Index (2455)	274.57	1.4	249.86	253.41	253.33	254.43	1.2	1.74	270.81	245.88	251.88	250.79	251.33	308.56	241.30	260.66

Emerging markets: IFC Investable indices

Dollar terms

Aug 12 Market		Day's chg %	% Chg since 31/12/97
Latin America			
Argentina	538.66	-0.2	-24.8
Brazil	358.83	-4.4	-25.6
Chile	488.57	-0.4	-24.0
Colombia[7]	508.85	-0.6	-38.4
Mexico	498.08	-1.2	-38.1
Peru[2]	175.04	-1.4	-21.0
Venezuela[3]	377.81	+0.5	-56.7
East Asia			
China[4]	21.85	-3.1	-60.5
Korea[5]	24.99	-1.7	+4.0
Philippines	73.09	-4.3	-35.2
Taiwan, China[6]	115.48	-0.7	-18.1
South Asia			
India[7]	62.47	-1.0	-25.1
Indonesia[8]	14.06	+1.5	-58.3
Malaysia	47.44	+2.5	-48.0
Pakistan[9]	98.39	-0.5	-60.4
Sri Lanka[10]	82.84	-0.8	-28.8
Thailand	35.22	+1.4	-25.1
Europe/Mideast/Africa			
Czech Rep	92.04	+2.1	-4.9
Egypt	72.13	-0.9	-22.6
Greece	332.70		+70.6
Hungary[11]	295.25	+3.6	-8.2
Israel	125.82	+1.0	+3.4
Jordan	238.00	+2.0	+13.2
Morocco	170.98	+0.6	+31.2
Poland[12]	631.30	-3.3	+9.1
Portugal	297.72	+1.9	+41.1
Russia	40.98	+0.4	-72.4
S Africa[13]	131.77	+2.1	-25.7
Slovakia	58.82	-0.5	-39.7
Turkey[14]	218.07	+3.5	-29.6
Zimbabwe[15]	184.25		-26.8
Regions			
Composite	183.72	-0.2	-25.3
Latin America	469.25	-1.9	-30.7
Asia	74.86	-0.3	-30.5
EMEA	125.92	+1.5	-15.1
Europe	165.89	+1.4	-12.0
Eastn Europe	74.67	+0.7	-46.8
ME & Africa	58.36	+1.5	-18.4

Base date Dec 1988=100 except those noted which are: (1)Feb 1 1991; (2)Dec 31 1992; (3)Jan 5 1993; (4)Dec 31 1992; (5)Jan 3 1992; (6)Jan 4 1997; (7)Nov 8 1992; (8)Sep 20 1990; (9)Mar 1 1991; (10) Dec 31 1992; (11)Dec 31 1992; (12)Dec 31 1992; (13)Dec 31 1992; (14)Dec 31 1992; (15)Aug 2 1993; (16) July 2 1993.

Latest indices were unavailable for this edition.

PACIFIC

AMERICAS

AFRICA

4 pm close August 13

NEW YORK STOCK EXCHANGE PRICES

- A -

- B -

- C -

- D -

- E -

- F -

- G -

- H -

- I -

- J -

- K -

- L -

- M -

- N -

- O -

- P - Q -

- R -

- S -

- T -

- U -

- V -

- W -

- X - Y - Z -

Price data supplied by Extel, part of FT Information

Yearly highs and lows for NYSE reflect the period from Jan 1 1998. Unless otherwise noted, rates of dividend are annual disbursements based on the latest declaration. Volume figures are unofficial.

d-New yearly low. P/E price-earnings ratio. vol- volume. u-New yearly high. x-Ex-dividend or ex-rights. yld-yield. z-sales in full.
Dealings suspended.

GLOBAL EQUITY MARKETS

US INDICES

Dow Jones	Aug 12	Aug 11	Aug 10	1998 High	1998 Low	Since compilation High	Since compilation Low
Industrials	8552.96	8462.85	8574.85	9337.97 (17/7)	7580.42 (9/1)	9337.97 (17/7/98)	41.22 (8/7/32)
Home Bonds	105.08	105.37	105.28	106.48 (15/1)	104.42 (11/5)	106.48 (15/1/98)	54.98 (1/10/81)
Transport	3088.53	3035.83	3083.13	3686.02 (16/4)	3035.83 (11/8)	3686.02 (16/4/98)	13.23 (8/7/32)
Utilities	280.81	274.72	276.87	285.49 (8/7)	262.66 (9/1)	285.49 (8/7/98)	16.53 (8/7/32)

DJ Ind. Day's High 8621.71 (8532.29) Low 8437.10 (8283.32) (Theoretical) Day's High 8594.55 (8570.84) Low 8480.05 (8396.87) (Actual)

Standard and Poors	Aug 12	Aug 11	Aug 10	1998 High	1998 Low	Since compilation High	Since compilation Low
Composite‡	1084.22	1068.98	1083.14	1186.75 (17/7)	927.69 (9/1)	1186.75 (17/7/98)	4.40 (1/6/32)
Industrials¶	1275.43	1258.26	1272.86	1380.48 (17/7)	1077.40 (9/1)	1380.48 (17/7/98)	3.52 (30/6/32)
Financial¶	128.64	124.35	127.34	147.59 (14/7)	110.65 (9/1)	147.59 (14/7/98)	7.13 (4/9/74)
Others							
NYSE Comp.	545.48	537.95	545.72	600.75 (17/7)	487.47 (9/1)	600.75 (17/7/98)	4.84 (25/4/42)
Amex Comp	668.80	659.27	678.80	783.87 (22/4)	646.45 (12/1)	783.87 (22/4/98)	504.29 (16/7/98)
NASDAQ Comp	1825.53	1792.70	1839.21	2014.25 (20/7)	1503.22 (9/1)	2014.25 (20/7/98)	54.87 (3/10/74)
Russell 2000	408.55	400.60	411.84	491.41 (21/4)	398.60 (5/8)	491.41 (21/4/98)	123.36 (27/12/88)

RATIOS

	Aug 7	Jul 31	Jul 24	Year ago
Dow Jones Ind. Div. Yield	1.71	1.63	1.64	1.61
	Aug 5	Jul 29	Jul 22	Year ago
S & P Ind. Div. yield	1.35	1.30	1.25	1.47
S & P Ind. P/E ratio	30.34	31.51	32.58	26.35

US DATA

JAPAN

FRANCE

GERMANY

UK

INDEX FUTURES

S&P 500	Open	Latest	Change	High	Low
Sep	1090.10	1086.80	-3.70	1090.80	1079.60
Dec	–	1102.10	–	–	1098.00
Nikkei 225	Open	Sett price	Change	High	Low
Sep	15420.0	15340.0	-70.00	15480.0	15280.0
Dec	15380.0	15190.0	-130.0	15380.0	15190.0

Open interest figures for previous day.

WORLD MARKETS AT A GLANCE

THE NASDAQ STOCK MARKET

4 pm close August 13

THE NASDAQ STOCK MARKET

AMEX PRICES

4 pm close August 13

EASDAQ

STOCK MARKETS

Russian woes add to investor nervousness

WORLD OVERVIEW

A volatile day for world markets saw investors struggling to cope with the problems of Russia as well as the Asian economic crisis that has dominated events for the last year, *writes Philip Coggan.*

A letter from George Soros in yesterday's Financial Times, saying that the turmoil in Russia's financial markets had reached a "terminal phase" and recommending a 15-25 per cent devaluation, provided an excuse for nervous traders to sell off Russian assets.

The Moscow market quickly fell by 15 per cent and the yields on short-term government debt rose sharply.

A Russian devaluation or default would have a severe impact on some European banks. But the main effect yesterday was to depress sentiment among investors already made nervous by the Asian crisis and by the recent correction in European and US share prices.

Asia did its bit to maintain the crisis atmosphere, with the Hang Seng index dropping 2.9 per cent to another five-year low, amid further nervousness about Hong Kong's currency. The yen dropped back in Tokyo trading to Y147/$, approaching its *eight*-year low.

Europe's markets took an immediate hit at the opening from Russia and Asia, reversing all of Wednesday's hard-won gains. But by early afternoon in Europe, the picture had changed.

Wall Street initially refused to join in the sell-off, with the Dow Jones Industrial Average quickly gaining more than 50 points. And the yen rebounded sharply to Y145 on talk that the Bank of Japan was preparing to intervene in its support.

Although the trend changed again, as the Dow lost all its early gains by late morning in New York, Paris still managed to end higher and most European markets cut their losses. Even Russia did so, ending 6.5 per cent lower. That still leaves the market down 75 per cent on the year.

Ian Harnett, European strategist at BT Alex Brown, said earlier this week that the region's bourses could fall a further 10-15 per cent. Mr Harnett expanded on his view yesterday, citing three reasons:

- Current price-earnings valuations of over 20 look unsustainable unless there is greater clarity on the economic outlook
- BT Alex Brown's monetary policy indicator has moved into tightening territory as the D-Mark has strengthened
- European markets have moved through some technical support levels which leave the markets open to substantial downside.

Dow slips as rouble fears hit sentiment

AMERICAS

Overseas markets set direction on Wall Street, with renewed Russian currency concerns sending the Dow Jones Industrial Average back below 8,500, *writes John Labate in New York.*

In marked contrast to Wednesday, when all major indices traded strongly on a day of relative calm in global markets, yesterday ushered in a new wave of uncertainty in the shape of distraught Russian markets amid concerns that the rouble could be devalued.

By early afternoon the Dow was down 57.67 at 8,495.29, while the broader Standard & Poor's 500 index lost 6.16 to 1,078.06.

As has been the case for much of the last week, the widest swings were felt in the small company and technology sectors. The Russell 2,000 index of small cap shares plunged 6.31 or 1.54 per cent to 402.24. The Nasdaq composite, heavily weighted in technology issues, fell 19.08 to 1,806.45.

The tone in the market was strongly negative, with declining stocks outpacing declining ones by a margin of more than 2 to 1.

Among Dow component shares, Boeing slid more than 4 per cent or $1 1/16 to $37 7/16 after the company announced a fresh reorganisation. Travelers also fell back, down $1 3/8 to $57 5/16.

Unlike previous sessions marked by overseas uncertainty, US Treasury prices did not trade higher, as the market prepared for the final auction of the week.

The benchmark 30-year bond was down 1/32 by early afternoon to 107 1/32, yielding 5.629 per cent.

Profit-taking hit the retail sector after leading companies announced earnings. K-Mart plunged 5.6 per cent or $1 to $17¾, and Gap tumbled $1¾ to $65 5/16. Nordstrom, however, surged more than 9 per cent to $35¼.

Shares of Sunbeam, the troubled consumer products maker, surged $1 11/16 or more than 24 per cent to $8¼ after Wednesday's announcement that it would give five-year warrants to another company.

Another upbeat stock was Cendant, which climbed more than 7 per cent or $1 to $17 1/16 after releasing restated results. Paine Webber plunged $3 5/16 to $49 after several sessions of takeover speculation.

TORONTO fell back, unwinding part of the previous sessions' strong gains in early trading. Banks were dull and Seagram, up 10 per cent on Wednesday, was a clear target for the profit-takers. By noon, the 300 composite index was off 49.35 at 6,446.

Among banks, Royal Bank of Canada came off C$1.10 at C$73.20 and Bank of Nova Scotia lost 25 cents at C$32.75. Canadian Imperial, which sent tremors through the sector at the end of last week with a profits warning, shed 40 cents at C$35.70.

Industrials mostly shared in the downturn, with Alcan Aluminium off 45 cents at C$36.15 and BCE losing 55 cents at C$58.15. Seagram, which surprised investors on Wednesday with bumper results, came off C$2.80 at C$49.30.

In contrast, golds managed to push higher. Barrick gained 70 cents to C$24.75 and Placer Dome improved 25 cents to C$15.85.

São Paulo falls again

SAO PAULO entered its tenth straight day of losses as Wall Street lost ground in early trading and worries about emerging market currencies were given an additional patina of menace by the latest scares about the Russian rouble.

At midsession, the benchmark Bovespa index was off 47 at 8,370. Market heavyweight Telebrás shed 1 per cent at R$109.10 and Petrobrás came off 1.3 per cent at *RR$191.01.*

MEXICO CITY also moved lower although the peso was slightly firmer in the foreign exchanges.

Morning volume in equities was said to be moderate and at midsession, the IPC index was down 9.59 at 3,551.91.

SANTIAGO fell 1.4 per cent in morning trade with the IPSA index down 1.14 at 80.73.

Brokers said emerging market worries had weighed fairly heavily on sentiment and driven most investors to the sidelines.

Dax drops in volatile trade

EUROPE

After a day of rouble worries and violent swings in sentiment, **FRANKFURT** ended electronic trading with the Xetra Dax index off 131.91 at 5,355.08. This was 124 points above the session low.

Among corporate news, Mannesmann turned in disappointing interim figures and Veba issued a profits warning. The latter said it expected a significant fall in earnings in 1998.

Veba shares fell DM3.85 to DM95.75. The group has been pushed off course by losses and restructuring at its silicon wafer operations which has been severely squeezed by the global chips recession.

At Mannesmann, the shares fell DM6.70 to DM169.10 following what brokers described as an uninspiring first-half outturn.

Banks had a mixed session. There was marked sector weakness during the morning when all sorts of rouble-linked scare stories circulated in the market, but sentiment recovered later in the day.

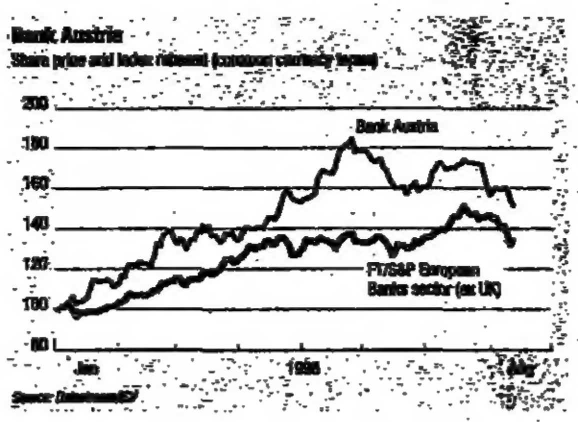
Dresdner Bank plunged to DM88.70 before finishing at DM92.85, down DM1.45. Deutsche Bank gave up 60 pfg at DM129.80.

PARIS bounced off early lows to close with the CAC 40 index up 5.99 at 3,951.69. It was a volatile session with the benchmark swinging within a range of 120 points and fallers virtually matching risers.

France Telecom provided good support, ending with a gain of FFr10.00 to FFr420 after six-month sales matched broker expectations. Canal Plus was the day's top performer, rising FFr52 or 4.5 per cent to FFr1,206 on interim sales widely seen as ahead of market estimates.

Banks lost ground in spite of a broker upgrade. EIFB published a note suggesting that recent sector weakness had created "a real opportunity". It moved to buy on BNP and Paribas, which dipped FFr10.70 to FFr457 and FFr9 to FFr577 respectively.

AMSTERDAM ended lower



with the AEX index off 3.75 at 1,145.55. Royal Dutch was actively traded for August, ending down 30 cents at Fl 91.20 with 10.2m shares changing hands after a busy session in the options market.

Aegon lost Fl 4.90 at Fl 177.60 following disappointing half-year figures that came in at the bottom end of analysts' forecast range.

Among the day's stronger performers, ABN Amro gained Fl 1.10 to Fl 47.70. Heineken added 80 cents to Fl 86.30 following an earnings upgrade and target price increase to Fl 100 by Morgan Stanley Dean Witter.

ZURICH closed lower amid uncertainty over corporate earnings, and the SMI index fell 54.900, or 0.7 per cent to 7,552.60.

Banking shares fell in line with the market in spite of the overnight $1.25bn settlement with Holocaust victims and survivors. UBS lost SFr6 to SFr566 while CS lost SFr2.50 to SFr327.50.

Insurers, which are also expected to hammer out a deal with families of Holocaust victimes, were lower. Baloise fell SFr48 to SFr1,320, Helvetia declined SFr10 to SFr1,600 and Swiss Re dropped SFr20 to SFr3,680.

ABB lost SFr58 to SFr1,905 on fresh concerns about the company's Asian exposure.

MILAN closed a volatile session almost flat, with the Mibtel index edging down 34 to 23,091 amid thin volume.

Montedison, the most active issue of the day, lost L2 to L1,996. Olivetti followed, gaining L3 to L3,909.

Fiat was up L44 to L6,641 on news that the Brazilian government had reduced taxes to boost car sales.

MADRID edged lower in spite of strength in leading blue chips, and the general index fell 2.34 to 864.44.

Endesa, which attracted buying interest from a leading buyer in early trading, rose Pta15 to Pta3,190, while Telefonica rose Pta70 to Pta7,290.

Telepizza jumped Pta125 or 9.6 per cent to Pta1,425 on an upgrading by a broker.

Banks suffered, dragged down by the weakness in German counterparts. BCH fell Pta70 to Pta1,730 and Santander lost Pta55 to Pta3,690.

STOCKHOLM was led by weak forestry and engineering stocks with large exposure to Asia, and the general index fell 43.95 to 3,343.14.

Ericsson fell SKr7.5 to SKr189.5. China is the group's largest single market. The shares were also affected by reports that the top management at its US unit had left because of a rift with the executive management in Stockholm.

AssiDoman, the forestry group, fell SKr6 to SKr188, while Stora lost SKr1.5 to SKr108.5. Drugs company Astra gained SKr0.5 to SKrr139. It was hardly affected by reports that it was developing a new soluble Losec tablet in order to maintain its market share when Losec patents expire.

MOSCOW ended 6.5 per cent lower at 101.17 on the RTS-IF index, having been down by more than 11 per cent at one stage on rouble devaluation worries. The index stood at 571.66 on October 6 last year.

Neighbouring markets all fell. **PRAGUE** lost 2.3 per cent on the PX50 index and **BUDAPEST** ended 4.6 per cent lower on the Bux index. In **WARSAW** the Wig 20 shed 1.4 per cent.

VIENNA was also on the sharp end of rouble scares, with Bank Austria sliding 5.1 per cent to Sch907 for a two-day decline of more than 8 per cent and helping to depress the benchmark ATX index by 20.91 to 1,378.56.

Written and edited by Jeffrey Brown, Emiko Terazono and Peter Hall

Johannesburg tumbles 2%

SOUTH AFRICA

Shares in Johannesburg moved lower with sentiment taking fright at renewed emerging market wobbles. The all share index closed off 2 per cent at 6,200.3.

Industrials fell 1.4 per cent to 7,278.2 and financials lost 1.8 per cent at 10,730.8. But the golds sector contained the steepest upsets. The index shed 4 per cent at 874.1. Among blue chips, De Beers shed R8 or 8.3 per cent at R88 and AngloGold fell 5 per cent or R14 to R250.

EMERGING MARKET FOCUS

Mauritius steers clear of turmoil

Strong fundamentals have helped Mauritius escape the turmoil in other emerging markets, sending the stock market to a peak this month.

A sharp downturn three years ago lasted until the end of 1996 before bargain hunting brought a recovery last year. The local Semdex all-share index has risen 25 per cent in US dollar terms this year, having hit a record at the beginning of August.

Profit-taking in recent sessions has seen the index decline from its peak of 537.31 but analysts expect a further surge in the last quarter.

Several factors explain the advance. Chief among them is the strength of the local economy. Gross domestic product in the year to June 1999 is expected to continue growing at 5.5 per cent while the government has forecast a reduction in the fiscal deficit from 3.7 per cent to 1.7 per cent, addressing what analysts say is the biggest structural problem.

Pressure on the rupee in the wake of a slide in Asian currencies and later the rand in South Africa, helped make the domestic sugar industry more competitive internationally. Sugar remains one of the country's main exports. The retreat in the currency has also helped trigger a sharp increase in tourism as holiday makers shied away from Kenya for fear of political violence.

Much of the buying has come from local institutions taking a closer look at the favourable macroeconomic fundamentals of the island. However, there has also been some overseas investor interest from dedicated Africa funds. South African investment interest has also been growing following a relaxation of rules for investors in the Southern African Development Community region earlier this year.

Banking stocks, such as the State Bank of Mauritius which this week reported figures at the top end of market expectations, are one of the sectors favoured by investors. Demand has also been seen for hotel-related stocks as investors anticipate favourable results from an improvement in tourism.

However, there are some dark clouds on the horizon. Next month's introduction of value added tax to replace sales tax, and fears of sizeable public sector pay awards are expected to lead to an increase in inflation from 5.4 per cent to around 8 per cent by next June.

Naresh-Gokarsingh, equity analyst at General Brokerage in Port Louis, believes the bull run is far from over and he expects to see increased overseas buying. He said: "The downside risk is limited in Mauritius because of the macroeconomic picture and with local institutions tending on the whole to go underweight in equities, there are good opportunities to buy stock."

James Gram-Maw at Foreign & Colonial Emerging Markets is a fan of the Mauritius market but believes the government has to speed up the delayed privatisation programme. "It would be good to see privatisations as it would draw attention to the country's strong economic record which most investors are unaware of."

Joel Kibazo

Rouble concern depresses HK

ASIA PACIFIC

HONG KONG fell 2.9 per cent as rouble worries spilled over on to the Hong Kong dollar and Chinese renminbi and local money markets shot higher.

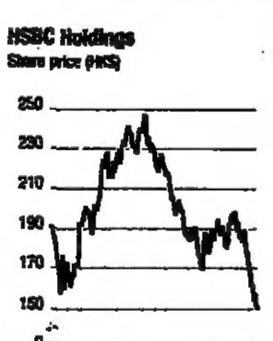
By the close of an active session, the Hang Seng index was down 199.06 at 6,660.42 – the lowest since April 1993 – after touching a session worst of 6,581.44.

HSBC fell HK$6.00 or 3.8 per cent to HK$151 to account for more than a third of the day's decline on the benchmark index. Cheung Kong, which unveils results later this month, fell HK$1.03 to HK$28.05 and Sun Hung Kai lost 90 cents or 4 per cent at HK$21.60.

China stocks moved lower but traded quietly. The red-chip index lost 2.4 per cent, while H shares improved slightly.

TOKYO reversed an eight-day losing streak, improving slightly in light trading with many companies closed for the summer holidays, *writes Alexandra Harney in Tokyo.*

The benchmark Nikkei 225 Average hardened 3.05 to 15,382.02, having moved between 15,239.71 and



15,476.32. Trading volume shrunk to 333m shares. Advancers beat losers 744 to 395.

The Topix index of all first section shares improved 1.71 to 1,181.71. However, the OSE index in Osaka closed down 73.97 at 16,389.53, with analysts mostly blaming the weak trend in Hong Kong.

In Tokyo, the financial sector continued to be the most heavily traded. Investors have been awaiting more details about how the new administration will tackle the problems plagueing the economy and the banking sector.

Sakura Bank topped the activity charts, gaining Y5 to Y280. Fuji Bank improved Y15 to Y440, and Sanwa was up Y15 to Y956. Bank of Tokyo-Mitsubishi, however, lost Y3 to Y1,170. Long Term Credit Bank, which is under investigation because of reports of liquidity problems, lost Y1 to finish at Y41.

Among manufacturers, Nippon Steel, which has implemented significant cost cuts recently, gained Y2 to Y251. Fuji Heavy Industries climbed Y31 to Y865. The group is expected to record strong car sales this year. Mitsubishi Heavy Industries lost Y6 to Y514.

KUALA LUMPUR fell to a 10-year low as shares were hit by declines in the ringgit and poor corporate profit announcements. The composite index closed down 15.46 or 4.5 per cent at 326.73, the lowest since June 1996.

The ringgit was sold off on persistent worries over the Hong Kong dollar, while the interim results announcement by Technology Resources Industries, which revealed net losses, unnerved investors. TRI plunged M$0.85 to M$1.

SINGAPORE took fright at worse than expected results from DBS Bank, the country's biggest bank, and the Straits Times Industrials index lost 19.37 or 2 per cent to 976.40.

DBS fell 50 cents to S$8.40 after it reported interim net profits down 50 per cent. The announcement triggered a sell-off in bank shares, and UOB lost 29 cents to S$4.86. SIA was among the leading losers falling 55 cents to S$6.77. Singapore Telecom fell 3 cents to S$2.61.

WELLINGTON was hit by political uncertainty following news of an election-threatening split within the coalition government. The NZ dollar softened, drifting below 0.50 to the US dollar for the first time since mid-June, and share markets offered a wave of selling. NZ Telecom fell 22 cents to NZ$7.83 and Fletcher Paper lost 8 cents to NZ$1.77. The 40 capital index ended off 38.67 or 2 per cent at 1,913.72, a fresh low for the year.

BOMBAY reversed a four-day losing streak, sending the BSE Sensex index up 39.41 or 1.3 per cent to 2,990.21 as investors sought out perceived bargains among bluechips.